NEW ISSUE – BOOK–ENTRY ONLY

DAC Bond

	Insured Ratings:	Underlying/ Uninsured Ratings:
	Moody's: Aaa	*Moody's: Aa3*
	S&P: AAA	*S&P: AA-*
	Fitch: AAA	*Fitch: A+*

(See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, under existing law and assuming compliance with certain covenants in the documents pertaining to the Measure Y Series A Bonds, the Measure Y Series B Bonds, the Measure Y Series C Bonds and the Series A Refunding Bonds (the "Tax-Exempt Bonds") and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Tax-Exempt Bonds is not includable in the gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Tax-Exempt Bonds, 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. Interest on the Measure Y Series D Bonds will be includable in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$394,385,000
General Obligation Bonds
Election of 2005
Consisting of

$56,785,000	$80,200,000	$210,000,000	$47,400,000
Series A (2006)	Series B (2006)	Series C (2006)	Series D (2006) (Taxable)

and

$132,325,000
2006 General Obligation Refunding Bonds,
Series A

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

The $56,785,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series A (2006) (the "Measure Y Series A Bonds"), the $80,200,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series B (2006) (the "Measure Y Series B Bonds"), the $210,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series C (2006) (the "Measure Y Series C Bonds"), and the $47,400,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series D (2006) (Taxable) (the "Measure Y Series D Bonds" and, together with the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series C Bonds, the "Measure Y Bonds") and $132,325,000 Los Angeles Unified School District (County of Los Angeles, California) 2006 General Obligation Refunding Bonds, Series A (the "Series A Refunding Bonds" and together with the Measure Y Bonds, the "Bonds") constitute general obligations of the Los Angeles Unified School District (the "District"). The Board of Supervisors of Los Angeles County has the power and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds, all as more fully described herein.

Interest on the Bonds is payable on July 1, 2006 and semiannually thereafter on each January 1 and July 1. Principal of the Bonds is payable on July 1 in each of the years and in the amounts set forth on the inside cover page hereof. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Owners will not receive certificates representing their interests in the Bonds. Payments of principal of, premium, if any, and interest on the Bonds will be made by U.S. Bank National Association, as Paying Agent, to DTC, which is obligated to remit such payments to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX C – "BOOK-ENTRY ONLY SYSTEM."

The Measure Y Series A Bonds, the Measure Y Series B Bonds, the Measure Y Series C Bonds and the Series A Refunding Bonds are subject to optional redemption prior to maturity. The Measure Y Series D Bonds are not subject to redemption prior to maturity. See "THE BONDS—Redemption of the Measure Y Bonds" and "—Redemption of the Series A Refunding Bonds" herein.

The scheduled payment of principal of and interest on the Measure Y Series A Bonds maturing on July 1, 2009 through and including July 1, 2022, the Measure Y Series B Bonds maturing on July 1, 2009 through and including July 1, 2028, the Measure Y Series C Bonds maturing on July 1, 2009 through and including July 1, 2030 and the Measure Y Series D Bonds maturing on July 1, 2009 through and including July 1, 2014 (the "Ambac Insured Bonds") when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Ambac Insured Bonds by Ambac Assurance Corporation See "BOND INSURANCE – Ambac Assurance Corporation" herein and APPENDIX G – "Form of Ambac Financial Guaranty Insurance Policy" attached hereto.

Ambac

The scheduled payment of principal of and interest on the Series A Refunding Bonds (the "MBIA Insured Bonds") when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the MBIA Insured Bonds by MBIA Insurance Corporation. See "BOND INSURANCE – The MBIA Insurance Corporation Insurance Policy" herein and APPENDIX H – "Form of MBIA Financial Guaranty Insurance Policy" attached hereto.

MBIA

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued by the District and received by the Underwriters, subject to the approval of legality by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain matters will be passed upon for the District by the District's General Counsel and its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., Los Angeles, California. Tamalpais Advisors, Inc. and Kelling, Northcross & Nobriga, A Joint Venture, are serving as Co-Financial Advisors to the District in connection with the issuance of the Bonds. It is expected that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York on or about February 22, 2006.

Banc of America Securities LLC **Goldman, Sachs & Co.**

JPMorgan **Siebert Brandford Shank & Co., LLC** **Stone & Youngberg LLC**

Date of the Official Statement: February 8, 2006

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

$56,785,000 Measure Y Series A Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP(†) Number (Base 544644)	Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP(†) Number (Base 544644)
2008	$5,325,000	3.125%	3.350%	V53	2012[1]	$2,470,000	5.000%	3.630%	4B0
2009[1]	1,995,000	3.200	3.320	V61	2013[1]	4,375,000	3.625	3.730	W29
2009[1]	300,000	4.000	3.320	3U9	2013[1]	3,660,000	5.000	3.730	4C8
2009[1]	7,635,000	5.000	3.320	3V7	2014[1]	765,000	3.750	3.820	W37
2010[1]	2,540,000	3.250	3.420	V79	2015[1]	795,000	3.800	3.890	W45
2010[1]	4,275,000	4.000	3.420	3W5	2016[1]	820,000	3.875	3.940	W52
2010[1]	3,565,000	5.000	3.420	3X3	2017[1]	850,000	4.000	100.00	W60
2011[1]	1,660,000	3.375	3.500	V87	2018[1]	885,000	4.000	4.050	W78
2011[1]	175,000	4.000	3.500	3Y1	2019[1]	915,000	4.000	4.100	W86
2011[1]	5,565,000	5.000	3.500	3Z8	2020[1]	950,000	4.000	4.150	W94
2012[1]	3,130,000	3.500	3.630	V95	2021[1]	985,000	4.000	4.200	X28
2012[1]	2,125,000	4.000	3.630	4A2	2022[1]	1,025,000	4.100	4.250	X36

$80,200,000 Measure Y Series B Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP(†) Number (Base 544644)	Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP(†) Number (Base 544644)
2008	$ 1,750,000	3.125%	3.350%	X51	2014[1]	$1,300,000	3.750%	3.820%	Y35
2008	10,320,000	5.000	3.350	4D6	2015[1]	1,000,000	3.800	3.890	Y43
2009[1]	1,940,000	3.200	3.320	X69	2016[1]	1,035,000	3.875	3.940	Y50
2009[1]	4,200,000	4.000	3.320	4E4	2017[1]	1,075,000	4.000	100.00	Y68
2009[1]	6,480,000	5.000	3.320	4F1	2018[1]	1,115,000	4.000	4.050	Y76
2010[1]	3,350,000	3.250	3.420	X77	2019[1]	1,165,000	4.000	4.100	Y84
2010[1]	350,000	4.000	3.420	4G9	2020[1]	1,210,000	4.000	4.150	Y92
2010[1]	8,000,000	5.000	3.420	4H7	2021[1]	1,255,000	4.100	4.200	Z26
2011[1]	1,250,000	3.375	3.500	X85	2022[1]	1,305,000	4.125	4.250	Z34
2011[1]	3,400,000	4.000	3.500	4J3	2023[1]	1,360,000	4.200	4.300	Z42
2011[1]	7,545,000	5.000	3.500	4K0	2024[1]	1,415,000	4.250	4.350	Z59
2012[1]	2,640,000	3.500	3.630	X93	2025[1]	990,000	4.300	4.400	Z67
2012[1]	2,425,000	4.000	3.630	4L8	2026[1]	1,035,000	4.300	4.450	Z75
2012[1]	7,675,000	5.000	3.630	4M6	2027[1]	1,075,000	4.300	4.500	Z83
2013[1]	1,415,000	3.625	3.730	Y27	2028[1]	1,125,000	4.400	4.550	Z91

$210,000,000 Measure Y Series C Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP(†) Number (Base 544644)	Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP(†) Number (Base 544644)
2008	$ 5,725,000	5.000%	3.350%	4N4	2019[1]	$ 7,635,000	5.000%	4.070%*	2M8
2008	1,825,000	4.000	3.350	2A4	2020[1]	8,020,000	5.000	4.100*	2N6
2009[1]	7,915,000	5.000	3.320	2B2	2021[1]	8,420,000	5.000	4.140*	2P1
2010[1]	8,310,000	5.000	3.420	2C0	2022[1]	8,840,000	5.000	4.170*	2Q9
2011[1]	8,725,000	5.000	3.500	2D8	2023[1]	9,280,000	5.000	4.200*	2R7
2012[1]	9,155,000	5.000	3.630	2E6	2024[1]	9,745,000	5.000	4.230*	2S5
2013[1]	9,620,000	5.000	3.730	2F3	2025[1]	10,235,000	5.000	4.240*	2T3
2014[1]	10,100,000	5.000	3.820	2G1	2026[1]	10,745,000	5.000	4.260*	2U0
2015[1]	6,285,000	5.000	3.890	2H9	2027[1]	11,280,000	5.000	4.280*	2V8
2016[1]	6,595,000	5.000	3.940	2J5	2028[1]	11,845,000	5.000	4.290*	2W6
2017[1]	6,925,000	5.000	4.000*	2K2	2029[1]	12,440,000	5.000	4.310*	2X4
2018[1]	7,275,000	5.000	4.040*	2L0	2030[1]	13,060,000	5.000	4.320*	2Y2

$47,400,000 Measure Y Series D Bonds (Taxable)

Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP(†) Number (Base 544644)
2008	$3,425,000	5.050%	100.00%	2Z9
2009[1]	8,880,000	5.060	100.00	3A3
2010[1]	6,190,000	6.000	5.070	3B1
2011[1]	6,560,000	6.000	5.090	3C9
2012[1]	6,950,000	6.000	5.120	3D7
2013[1]	7,575,000	6.000	5.150	3E5
2014[1]	7,820,000	6.000	5.170	3F2

$132,325,000 Series A Refunding Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP(†) Number (Base 544644)
2017[2]	$41,705,000	5.000%	4.000%*	3S4
2018[2]	90,620,000	5.000	4.040*	3T2

* Priced to July 1, 2016 par call date.

(1) Insured by Ambac Assurance Corporation.
(2) Insured by MBIA Insurance Corporation.

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 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS 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 BONDS TO CERTAIN DEALERS AND BANKS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE RESOLUTIONS 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 Bonds.

LOS ANGELES UNIFIED SCHOOL DISTRICT

District Board of Education

District	Member	Term Ending
4	Marlene Canter, President	June 30, 2009
3	Jon Lauritzen, Vice President	June 30, 2007
1	Marguerite Poindexter LaMotte	June 30, 2007
2	Vacant	--
5	David Tokofsky	June 30, 2007
6	Julie Korenstein	June 30, 2009
7	Mike Lansing	June 30, 2007

District Administrators

Roy Romer, Superintendent
Kevin S. Reed, General Counsel
Dan M. Isaacs, Chief Operating Officer
Charles A. Burbridge, Chief Financial Officer
James McConnell, Chief Facilities Executive
Betty T. Ng, Controller

BOND COUNSEL

Sidley Austin LLP
San Francisco, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

CO-FINANCIAL ADVISORS

Tamalpais Advisors, Inc. and Kelling, Northcross & Nobriga, A Joint Venture
Sausalito, California and Oakland, California

PAYING AGENT AND ESCROW AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Causey, Demgen & Moore Inc.
Denver, Colorado

INVESTMENT ADVISOR

Public Financial Management
San Francisco, California

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LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$394,385,000
General Obligation Bonds
Election of 2005
Consisting of

$56,785,000	$80,200,000	$210,000,000	$47,400,000
Series A (2006)	Series B (2006)	Series C (2006)	Series D (2006) (Taxable)

$132,325,000
2006 General Obligation Refunding Bonds,
Series A

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Purpose

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of the $56,785,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series A (2006) (the "Measure Y Series A Bonds"), the $80,200,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series B (2006) (the "Measure Y Series B Bonds"), $210,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series C (2006) (the "Measure Y Series C Bonds"), and the $47,400,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series D (2006) (Taxable) (the "Measure Y Series D Bonds" and, together with the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series C Bonds, the "Measure Y Bonds") in the aggregate principal amount of $394,385,000, and $132,325,000 Los Angeles Unified School District (County of Los Angeles, California) 2006 General Obligation Refunding Bonds, Series A (the "Series A Refunding Bonds" and, together with the Measure Y Bonds, the "Bonds").

The District

The Los Angeles Unified School 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 that 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 THE AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005."

Authority and Purposes for Issuance of the Bonds

The Measure Y Bonds. The Measure Y Bonds are issued pursuant to certain provisions of the Education Code of the State and other applicable law and pursuant to resolutions adopted by the Board of Education of the District and the Board of Supervisors of the County. See "PLAN OF FINANCE—The Measure Y Bonds."

The Measure Y Bonds are issued pursuant to Proposition 39 approved statewide by California voters in November 2000, certain school facilities bond measures may be approved by affirmative vote of 55% of the eligible voters within a school district. The District received authorization at an election held on November 8, 2005, by approximately 66.1% of the votes cast by eligible voters within the District, to issue bonds in an amount not to exceed $3.985 billion ("Measure Y") for the purpose specified in the ballot measure including, but not limited to, the following: to continue repair/upgrade of aging/deteriorating classrooms, restrooms; build up-to-date, energy efficient neighborhood schools; early childhood education centers; upgrade fire/earthquake safety, emergency response equipment; purchase library books; upgrade computer technology; eliminate asbestos, lead paint hazards (the "Projects"). The Measure Y Bonds will be the first four series of bonds to be issued under Measure Y. The proceeds of the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series D Bonds will be applied to prepay certain base rental payments that the District is obligated to make in connection with outstanding Certificates of Participation of the District, including all of the District's Certificates of Participation (Multiple Properties Project), 2002 Series B (the "2002B Refunded Certificates") and the District's Certificates of Participation, Series 2003A (Multiple Properties Project) (the "2003A Refunded Certificates"), and a portion of the District's Certificates of Participation (Refinancing Project I and Refunding Project I), Series 2004A (the "2004A Refunded Certificates") and Certificates of Participation (Refinancing Project I and Refunding Project I), Series 2004B (the "2004B Refunded Certificates" and, together with the 2004A Certificates, the "2004 Refunded Certificates" and, together with the 2002B Refunded Certificates and the 2003A Refunded Certificates, the "Refunded Certificates"), the proceeds of which Certificates of Participation were used to fund the cost of various components of the Projects, to fund the costs of certain other Projects as described herein, and to pay costs of issuance in connection with the sale of such Measure Y Bonds. See "PLAN OF FINANCE - The Measure Y Bonds."

The Series A Refunding Bonds. The Series A Refunding Bonds are issued pursuant to certain provisions of the Government Code of the State (the "Government Code") and other applicable law and pursuant to a resolution adopted by the Board of Education of the District. A portion of the proceeds of the Series A Refunding Bonds will be applied to advance refund and defease a portion of the District's outstanding general obligation bonds (the "Refunded Bonds") that were previously issued under and in accordance with the authorization approved by the voters in the November 5, 2002 election (the "Measure K Authorization"). The District has previously issued $2.1 billion of its general obligation bonds in one series pursuant to the Measure K Authorization. See "PLAN OF FINANCE – The Series A Refunding Bonds." The issuance of the Series A Refunding Bonds will not change the amount of authorized but unissued bonds under the Measure K Authorization.

Security and Source of Payment for the Bonds

The Bonds constitute general obligations of the District. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Bond Insurance

The scheduled payment of principal of and interest on the Measure Y Series A Bonds maturing on July 1, 2009 through July 1, 2022, the Measure Y Series B Bonds maturing on July 1, 2009 through and including July 1, 2028, the Measure Y Series C Bonds maturing on July 1, 2009 through and including July 1, 2030 and the Measure Y Series D Bonds maturing on July 1, 2009 through and including July 1, 2014 (the "Ambac Insured Bonds") when due will be insured by a municipal bond insurance policy (the "Ambac Insurance Policy") to be issued simultaneously with the delivery of the Ambac Insured Bonds by Ambac Assurance Corporation ("Ambac"). See "BOND INSURANCE – Ambac Assurance Corporation" herein and APPENDIX G – "Form of AMBAC Financial Guaranty Insurance Policy" attached hereto. The scheduled payment of principal of and interest on the Series A Refunding Bonds (the "MBIA Insured Bonds" and, together with the Ambac Insured Bonds, the "Insured Bonds") when due will be insured by a municipal bond insurance policy (the "MBIA Insurance Policy") to be issued simultaneously with the delivery of the MBIA Insured Bonds by MBIA Insurance Corporation ("MBIA" and, together with Ambac, the "Insurers"). See "BOND INSURANCE – The MBIA Insurance Corporation Insurance Policy" herein and APPENDIX H – "Form of MBIA Financial Guaranty Insurance Policy" attached hereto.

Other Information

This Official Statement contains brief descriptions of, among other things, the District, the Resolutions (defined below) and certain other matters relating to the security for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents and agreements. Copies of such documents are available for inspection at the District by request to the Chief Financial Officer at (213) 241-7888, and following delivery of the Bonds, will be on file at the corporate trust office of U.S. Bank National Association, the Paying Agent for the Bonds (the "Paying Agent") in Los Angeles, California.

PLAN OF FINANCE

The Measure Y Bonds

Measure Y Authorization. The Measure Y Bonds are 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, as amended, and other applicable law, and pursuant to resolutions adopted by the Board of Education of the District on January 10, 2006 and by the Board of Supervisors of the County on January 31, 2006 (collectively, the "Measure Y Resolution") authorizing the issuance of not to exceed $400 million of general obligation bonds on behalf of the District.

Measure Y Projects. The District received authorization at an election held on November 8, 2005, by approximately 66.1% of the votes cast by eligible voters within the District, to issue general obligation bonds in an aggregate principal amount not to exceed $3.985 billion ("Measure Y"). Measure Y was approved under the provisions of Proposition 39 which allows for the approval of certain school facilities bond measures by affirmative vote of 55% of the eligible voters within a school district. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 39." The ballot language for Measure Y specified that such amount was to be spent as follows: "To reduce overcrowding and improve learning, shall the Los Angeles Unified School District: continue repair/upgrade of aging/deteriorating classrooms, restrooms; build up-to-date, energy efficient neighborhood schools; early childhood education centers; upgrade fire/earthquake safety, emergency response equipment; purchase library books; upgrade computer technology; eliminate asbestos, lead paint hazards by issuing $3.985 billion in bonds, at legal interest rates; with guaranteed annual financial/performance audits, citizens' oversight, no money for administrators' salaries?" Measure Y included a number of specifically identified school facilities, refinancing and other projects that could be funded with the proceeds of the bonds.

The Projects authorized to be funded under Measure Y include, among other things, (i) the construction of new neighborhood schools, (ii) the rehabilitation and modernization of existing facilities, (iii) provision of equipment to new schools, classrooms and libraries, (iii) satisfaction of any portion of a legally required reserve fund for ongoing and major maintenance to school buildings for projects contained in Measure Y, (iv) replacement of other sources of funding for Projects, including refunding certificates of participation that initially funded the Projects, and (v) the improvement of adult education, early childhood education and charter school facilities and other programs such as campus safety. The following Table 1 summarizes the major categories of Projects authorized to be funded under the Measure Y authorization and the expected allocation of Measure Y funding.

TABLE 1

Los Angeles Unified School District
Summary of Measure Y Projects and
Target Funding Amounts
($ in millions)

Category of Projects	Target Funding
School Construction	$1,600
School Repair	1,480
Information Technology	325
Debt Refinancing and Oversight of Bond Projects	240
Early Education	100
Innovation Fund	90
Adult Education	50
Charter Schools	50
Replacement of Special Education Buses	25
Added Resources to Low Performing Schools	10
Audit Process and Oversight of Bond Projects	10
Library Books	5
Total	**$3,985**

Source: Los Angeles Unified School District.

A portion of the proceeds of the Measure Y Series C Bonds in the approximate amount of $210 million will be applied to the costs of other Projects authorized under Measure Y, including the purchase of special education buses (approximately $25 million), school modernization (approximately $175 million) and oversight of bond projects (approximately $10 million). In addition, a portion of the proceeds of the Measure Y Series D Bonds will be applied to the costs of other Projects authorized under Measure Y.

The Measure Y Bonds will be the first four series of bonds to be issued under Measure Y authorization. In addition to the remaining Measure Y bond authorization, the District has $3.27 billion of remaining authorized but unissued general obligation bond capacity under its Measure R authorization approved by the voters on March 2, 2004, and $1.25 billion of remaining authorized but unissued general obligation bond capacity under its Measure K authorization approved by the voters on March 5, 2003. The District has sold and expects to issue an additional $500 million of general obligation bonds authorized under Measure R on or about February 16, 2006. In addition, the District currently anticipates semi-annual issuances of additional series of general obligation bonds under its Measure R authorization, Measure K authorization and Measure Y authorization over the next several years to finance various elements of the District's Capital Plan, currently comprised of the Strategic Execution Plan (New Construction), the Strategic Execution Plan (Existing Facilities), the Strategic Execution Plan (Information Technology) and the Strategic Execution Plan (CFO), as well as other capital projects.

Prepayment of Refunded Certificates. A portion of the proceeds of the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series D Bonds, in the aggregate amount of $178,617,578.73, will be applied to prepay certain base rental payments that the District is obligated to make in connection with the Refunded Certificates, the proceeds of which were applied to finance various components of the costs of various components of the Projects. The payment and prepayment of the Refunded Payments will be accomplished by depositing a portion of the proceeds from the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series D Bonds into the Measure Y Escrow Fund established with U.S. Bank National Association, as escrow agent (the "Measure Y Escrow Agent"), under an Escrow Agreement, dated as of February 1, 2006 (the "Measure Y Escrow Agreement"), by and between the District and the Measure Y Escrow Agent. The amount of funds deposited into the Measure Y Escrow Fund, together with interest earnings thereon, will be sufficient to pay the principal of and interest on the Refunded Certificates as the same shall become due through and including their respective dates of payment or prepayment. Upon the deposit into the Measure Y Escrow Fund as described above, the District will be discharged from all obligations with respect to the Refunded Certificates. The mathematical computations used to determine the sufficiency of the escrow deposit will be verified by the Verification Agent. See "MISCELLANEOUS – Verification Agent."

Set forth below is a description of the Refunded 2002B Refunded Certificates that will be refunded with the proceeds of the Measure Y Series A Bonds. In addition, a portion of interest due on April 1, 2006 in the amount of $12,125 will be paid with a portion of the proceeds of the Measure Y Series A Bonds.

2002B REFUNDED CERTIFICATES
Base CUSIP Number: 544648[†]

Maturity Date (October 1)	Interest Rate	Principal Amount	Date of Redemption	Redemption Price	CUSIP Suffix
2007	5.000%	$ 5,155,000			LN6
2008	3.000	7,645,000			MJ4
2008	5.000	2,385,000			LP1
2009	3.500	10,380,000			MK1
2010	4.000	2,885,000			ML9
2010	5.000	4,430,000			LR7
2011	4.000	1,255,000			MM7
2011	5.000	6,400,000			LS5
2012	4.000	935,000			MN5
2012	5.000	7,090,000			LT3
2013	4.000	625,000	10/01/2012	100.0%	LU0
2014	4.200	650,000	10/01/2012	100.0	LV8
2015	5.000	675,000	10/01/2012	100.0	LW6
2016	5.000	710,000	10/01/2012	100.0	LX4
2017	5.000	745,000	10/01/2012	100.0	LY2
2018	5.000	780,000	10/01/2012	100.0	LZ9
2019	5.000	820,000	10/01/2012	100.0	MA3
2020	5.000	860,000	10/01/2012	100.0	MB1
2021	5.000	905,000	10/01/2012	100.0	MC9
2022	5.000	950,000	10/01/2012	100.0	MD7
	Total	$56,280,000			

Set forth below is a description of the 2003A Refunded Certificates that will be refunded with the proceeds of the Measure Y Series B Bonds.

2003A REFUNDED CERTIFICATES
Base CUSIP Number: 544648(†)

Maturity Date (August 1)	Interest Rate	Principal Amount	Date of Redemption	Redemption Price	CUSIP Suffix
2006	5.000%	$ 8,775,000			MY1
2006	2.000	2,525,000			PZ5
2007	5.000	9,535,000			MZ8
2007	2.000	2,260,000			QA9
2008	5.000	10,415,000			NA2
2008	2.000	1,900,000			QB7
2009	5.000	10,240,000			NB0
2009	2.300	1,150,000			QC5
2010	5.000	10,770,000			NC8
2010	3.000	1,150,000			QD3
2011	5.000	11,935,000			ND6
2011	3.000	565,000			QE1
2012	3.000	760,000	08/01/2011	101.0%	NE6
2013	3.125	780,000	08/01/2011	101.0	NF1
2014	3.250	450,000	08/01/2011	101.0	NG9
2015	3.500	460,000	08/01/2011	101.0	NH7
2016	3.625	475,000	08/01/2011	101.0	NJ3
2017	3.750	495,000	08/01/2011	101.0	NK0
2018	4.000	515,000	08/01/2011	101.0	NL8
2019	4.000	535,000	08/01/2011	101.0	NM6
2020	4.000	555,000	08/01/2011	101.0	MN4
2021	4.125	575,000	08/01/2011	101.0	NP9
2022	4.125	600,000	08/01/2011	101.0	NQ7
2023	4.125	625,000	08/01/2011	101.0	NR5
2026	4.250	490,000	08/01/2011	101.0	NU8
2028	4.375	365,000	08/01/2011	101.0	NW4
	Total	$78,900,000			

Set forth below is a description of the portion of the 2004 Refunded Certificates that will be refunded with the proceeds of the Measure Y Series D Bonds.

2004 REFUNDED CERTIFICATES
Base CUSIP Number: 544648(†)

Maturity Date (October 1)	Interest Rate	Principal Amount	Date of Redemption	Redemption Price	CUSIP Suffix
2008	3.000%	$ 570,000			QH4
2008	4.250	5,000,000			QQ4
2009	4.000	5,645,000			QJ0
2010	3.000	5,845,000			QK7
2011	3.125	6,025,000			QL5
2012	5.000	6,280,000			QM3
2013	4.000	6,565,000	10/01/2012	100.0%	QN1
2014	4.000	6,835,000	10/01/2012	100.0	QP6
	Total	$42,765,000			

The Series A Refunding Bonds

The Series A Refunding Bonds are issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, as amended, and other applicable law, and pursuant to a resolution adopted by the Board of Education of the District on June 14, 2005 (the "Series A Refunding Resolution" and, together with the Series F Resolution, the "Resolutions") authorizing the issuance of general obligation refunding bonds in an amount not to exceed $600,000,000 in one or more series. The District issued the first series of general obligation refunding bonds in the aggregate principal amount of $467,675,000 on July 20, 2005. The Series A Refunding Bonds will be the second and final series of bonds issued under the Series A Refunding Resolution.

A portion of the proceeds of the Series A Refunding Bonds will be applied to advance refund and defease a portion of the Refunded Bonds as described in the table below. The advance refunding of the Refunded Bonds will be accomplished by depositing a portion of the proceeds from the Series A Refunding Bonds in an escrow fund (the "Series A Refunding Escrow Fund") established under that certain Escrow Agreement, dated February 1, 2006, (the "Series A Refunding Escrow Agreement") by and between the District and U.S. Bank National Association, as paying agent for the Refunded Bonds (the "Series A Refunding Escrow Agent"). The amount of funds deposited into the Series A Refunding Escrow Fund, together with interest earnings thereon, will be sufficient to fully pay the principal of and interest on the Refunded Bonds as the same shall become due pursuant to a call for redemption as shown in the table below. Upon the deposit into the Series A Refunding Escrow Fund as described above, the District will be discharged from all obligations with respect to the Refunded Bonds. The mathematical computations used to determine the sufficiency of the escrow deposit will be verified by the Verification Agent. See "MISCELLANEOUS – Verification Agent."

Set forth below is a description of the Refunded Bonds that will be refunded with the proceeds of the Series A Refunding Bonds.

REFUNDED BONDS
Base CUSIP Number: 544644[†]

Refunded Bonds	Maturity Date (July 1)	Interest Rate	Principal Amount	Date of Redemption	Redemption Price	CUSIP Suffix
Election of 2002, Series A (2003)	2017	5.375%	$ 41,440,000	7/1/2013	100.0%	PU5
	2018	5.375	90,495,000	7/1/2013	100.0	PW1
		Total	$131,935,000			

[†] Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The District and the Underwriters take no responsibility for the accuracy of such numbers.

Bond Oversight Committee

As required under Proposition 39, the Board of Education of the District has appointed a Citizens' Oversight Committee, composed of 13 members representing numerous community groups, to inform the public concerning the spending of the Measure Y, Measure R and Measure K authorization bond funds. The Citizens' Oversight Committee also informs the public concerning the spending of proceeds of the District's $2.4 billion Election of 1997 bond authorization ("Proposition BB"), although Proposition BB was not a Proposition 39 election. See APPENDIX A - "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION - DISTRICT FINANCIAL INFOMRAITON - District Debt." The Citizens' Oversight Committee meets periodically in order to review all matters relating to the District's general obligation bonds and the projects proposed to be funded therefrom and to make recommendations to the Board of Education of the District regarding such matters. See APPENDIX A – "DISTRICT

FINANCIAL AND DEMOGRAPHIC INFORMATION – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 39."

The members of the District's Citizens' Oversight Committee and the community groups represented by such members are set forth in Table 2 below:

TABLE 2

Los Angeles Unified School District
School Construction Bond Citizens' Oversight Committee
(As of January 31, 2006)

Member	Community Group Represented
Constance Rice, Chair	Controller, City of Los Angeles
Scott Folsom, Vice Chair	Tenth District Parent Teacher Student Association
George Stavaris, Secretary	California Taxpayers' Association
David Crippins, Executive Committee	L.A. Area Chamber of Commerce
Elizabeth Bar-El	LAUSD Student Parent
Charles Bergson	LAUSD Student Parent
Christopher Espinosa	Mayor's Office, City of Los Angeles
John Hakel	Associated General Contractors of California
Lynda Levitan	Thirty-First District Parent Teacher Student Association
Tyler McCauley	County of Los Angeles Auditor-Controller
Anastacio Medina	American Lung Association
Richard Slawson	Los Angeles Co. Federation of Labor, AFL-CIO
Betty Valles	AARP Legislative Team

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Measure Y Bonds are as follows:

Measure Y Series A Bonds, Measure Y Series B Bonds and Measure Y Series D Bonds

Sources of Funds	
Aggregate Principal Amount of Measure Y Bonds, Series A, B and D	$184,385,000.00
Net Original Issue Premium, Series A, B and D	5,446,638.15
Transfers From Funds and Accounts of Refunded Certificates	1,246.29
Total Sources	$189,832,884.44
Uses of Funds	
Deposit to Measure Y Escrow Fund	$178,617,578.73
Deposit to Debt Service Fund	2,822,410.40
Deposit to Building Fund	5,711,676.00
Costs of Issuance[1]	2,681,219.31
Total Uses	$189,832,884.44

(1) Includes Underwriters' discount, fees of Bond Counsel, Disclosure Counsel, Paying Agent, Escrow Agent, Verification Agent and Co-Financial Advisors, rating agency fees, bond insurance premium, printing fees, costs of the Measure Y election and other miscellaneous expenses.

Measure Y Series C Bonds

Sources of Funds	
Aggregate Principal Amount of Measure Y Bonds, Series C	$210,000,000.00
Net Original Issue Premium	14,226,582.15
Total Sources	$224,226,582.15
Uses of Funds	
Deposit to Building Fund	$210,000,000.00
Deposit to Debt Service Fund	11,044,526.48
Costs of Issuance[1]	3,182,055.67
Total Uses	$224,226,582.15

(1) Includes Underwriters' discount, fees of Bond Counsel, Disclosure Counsel, Paying Agent and Co-Financial Advisors, rating agency fees, printing fees, bond insurance premium, costs of the Measure Y election and other miscellaneous expenses.

Series A Refunding Bonds

The estimated sources and uses of funds with respect to the Series A Refunding Bonds are as follows:

Sources of Funds	
Aggregate Principal Amount of Series A Refunding Bonds	$132,325,000.00
Net Original Issue Premium	10,805,580.35
Transfer from Debt Service Fund of Refunded Bonds	1,027,763.82
Total Sources	$144,158,344.17
Uses of Funds	
Deposit to the Series A Refunding Escrow Fund	$143,349,743.25
Costs of Issuance[1]	808,600.92
Total Uses	$144,158,344.17

[1] Includes Underwriters' discount, fees of Bond Counsel, Disclosure Counsel, Paying Agent, Escrow Agent, Verification Agent and Co-Financial Advisors, rating agency fees, bond insurance premium, printing fees and other miscellaneous expenses.

THE BONDS

General Provisions

The $394,385,000 principal amount of Measure Y Bonds, comprised of $56,785,000 principal amount of Measure Y Series A Bonds, $80,200,000 principal amount of Measure Y Series B Bonds, $210,000,000 principal amount of Measure Y Series C Bonds, and $47,400,000 principal amount of Measure Y Series D Bonds and the $132,325,000 principal amount of Series A Refunding Bonds will be issued in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Owners will not receive physical certificates representing their interest in the Bonds purchased, except in the event that use of the book-entry system for the Bonds is discontinued. Principal of, premium, if any, and interest on the Bonds are payable by the Paying Agent to DTC, which is obligated in turn to remit such payments to its DTC Participants for subsequent disbursement to the beneficial owners of Bonds. For information about the securities depository and DTC's book-entry system see APPENDIX C – "BOOK-ENTRY ONLY SYSTEM."

The Bonds will be dated the date of delivery thereof. Interest with respect to the Bonds is payable on January 1 and July 1 of each year (each, an "Interest Payment Date"), commencing July 1, 2006. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date (defined below) immediately preceding any Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from its date. "Record Date" shall mean the 15th day of the month preceding an Interest Payment Date whether or not such day is a business day. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on July 1 in the years and amounts set forth on the inside cover page hereof.

The interest on each Bond is payable in lawful money of the United States of America to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the applicable Record Date, whether or not such day is a business day. If the book-entry system is discontinued, interest will be paid by (1) check or draft mailed on each Interest Payment Date (or the next business day, if the Interest Payment Date does not fall on a business day) to each registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent for that purpose or (2) in immediately available funds (for example, by wire transfer) to any registered owner of at least $1,000,000 of outstanding Bonds who has requested in writing such method of payment of interest on the Bonds prior to the close of business on the applicable Record Date.

Redemption of the Measure Y Bonds

Optional Redemption of the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series C Bonds. The Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series C Bonds, maturing on or before July 1, 2016 will not be subject to redemption prior to their respective stated maturity dates. The Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series C Bonds maturing on and after July 1, 2017 will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2016, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, to the date of redemption.

No Redemption of the Measure Y Series D Bonds. The Measure Y Series D Bonds are not subject to redemption prior to maturity.

Notice of Redemption. Notice of redemption of any Measure Y Bonds will be given by the Paying Agent upon the written request of the District given at least 60 days prior to the date designated for such redemption. Notice of any redemption of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective Owners thereof at the addresses appearing on the bond registration books, (ii) by secured mail to all organizations then-registered with the Securities and Exchange Commission as securities depositories, (iii) to at least two information services of national recognition which disseminate redemption information with respect to municipal securities, and (iv) as may be further required in accordance with the Continuing Disclosure Certificate of the District. See APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds and the date of issue of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds to be redeemed; (vi) if less than all of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds of any maturity are to be redeemed the distinctive numbers of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds of each maturity to be redeemed; (vii) the respective portions of the principal amount of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds of each maturity to be redeemed, in the case of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds redeemed in part only; (viii) the CUSIP number, if any, of each maturity of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds to be redeemed; (ix) a statement that such Measure Y Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. The actual receipt by the Owner of any Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Measure Y Bonds or the cessation of interest on the date fixed for redemption.

Selection of Measure Y Bonds for Redemption. If less than all of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds are called for redemption, such Measure Y Bonds will be redeemed in inverse order of maturities or as otherwise directed by the District, and if less than all of any given maturity of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds are called for redemption, the portions of such Measure Y Bonds of a given maturity to be redeemed will be determined by lot.

Effect of Redemption. When notice of redemption has been given substantially as described above, and when the redemption price of the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds called for redemption is set aside for such purpose, the Measure Y Series A Bonds, the Measure Y Series B Bonds or the Measure Y Series C Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Measure Y Bonds at the place specified in the notice of redemption, such Measure Y Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Measure Y Bonds so called for redemption after such redemption date shall look for the payment of such Measure Y Bonds and the redemption premium thereon, if any, only to the interest and sinking fund or the escrow fund established for such purpose.

Redemption of the Series A Refunding Bonds

Optional Redemption. The Series A Refunding Bonds maturing on and after July 1, 2017 will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2016, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, to the date of redemption.

Notice of Redemption. Notice of redemption of any Series A Refunding Bonds will be given by the Paying Agent. Notice of redemption of any Series A Refunding Bonds will be by first class mail, postage prepaid, to the respective Owners of any registered Series A Refunding Bonds designated for redemption at their addresses appearing on the Series A Refunding Bond registration books, in every case at least 30 days, but not more than 60 days, prior to the redemption date. Neither the failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Series A Refunding Bonds.

Each notice of redemption for any Series A Refunding Bonds will contain the following information: (a) a statement that the Series A Refunding Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Series A Refunding Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Series A Refunding Bonds including the Dated Date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Series A Refunding Bond to be redeemed, the portion of the principal amount of such Series A Refunding Bond to be redeemed, together with interest accrued to said date, and redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable. The actual receipt by the Owner of any Series A Refunding Bonds or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Series A Refunding Bonds or the cessation of interest on the date fixed for redemption.

Selection of Bonds for Redemption. If less than all of the Series A Refunding Bonds of any one maturity are called for redemption, the particular Series A Refunding Bonds or portions of Series A Refunding Bonds and maturity to be redeemed will be selected by lot by the Paying Agent in such manner as the Paying Agent in its discretion may determine; provided, however, that the portion of any Series A Refunding Bond to be redeemed shall be in the principal amount of $5,000 or some multiple thereof and that, in selecting Series A Refunding Bonds for redemption, the Paying Agent shall treat each Series A Refunding Bond as representing that number of Series A Refunding Bonds which is obtained by dividing the principal amount of such Series A Refunding Bond by $5,000. If less than all of the Series A Refunding Bonds stated to mature on different dates are called for redemption, the particular Series A Refunding Bonds or portions thereof to be redeemed will be called in the inverse order of their maturities.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Series A Refunding Bonds called for redemption is set aside for such purpose, the Series A Refunding Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date. The Owners of such Series A Refunding Bonds so called for redemption after such redemption date shall look for the payment of such Series A Refunding Bonds and the redemption premium thereon, if any, only to the interest and sinking fund or the escrow fund established for such purpose.

Defeasance

If at any time the District shall pay or cause to be paid or there shall otherwise be paid to the Owners of any or all outstanding Bonds all of the principal, interest and premium, if any, represented by such Bonds at the times and in the manner provided in the applicable Resolution or Resolutions and in the Bonds, or as otherwise provided by law consistent herewith, then such Owners shall cease to be entitled to the obligation of the District described below under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—General Description" and such obligation and all agreements and covenants of the District and of the County to such Owners under the Resolutions and under the Bonds shall thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal, interest and premium, if any, represented by the Bonds, but only out of monies on deposit in the related Debt Service Fund or otherwise held in trust for such payment.

The Measure Y Bonds. All or any portion of the outstanding maturities of the Measure Y Bonds may be defeased prior to maturity in the following ways:

(i) by irrevocably depositing with the Paying Agent an amount of cash which together with amounts then on deposit in the Debt Service Fund for the Measure Y Bonds, is sufficient to pay all Measure Y Bonds outstanding and designated for defeasance, including all principal and interest and redemption premium, if any; or

(ii) by irrevocably depositing with the Paying Agent noncallable United States Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with accrued interest and monies then on deposit in the Debt Service Fund for the Measure Y Bonds together with the interest to accrue thereon, be fully sufficient to pay and discharge all Measure Y Bonds outstanding and designated for defeasance (including all principal thereof and interest and redemption premiums, if any, thereon) at or before their maturity date.

"United States Obligations" shall mean:

(i) Direct and general obligations of the United States of America (including state and local government series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed "AAA" by Standard & Poor's ("S&P") or "Aaa" by Moody's Investors Service ("Moody's"); and

(ii) Non-callable obligations of government sponsored agencies that are rated "AAA" by S&P or "Aaa" by Moody's but are not backed by the full faith and credit of the U.S. Government. These include the following: (a) Federal Home Loan Mortgage Corp. Debt Obligations; (b) Farm Credit System (formerly known as the Federal Land Banks, Intermediate Credit Banks and Bank for Cooperatives) Consolidated Systemwide bonds and notes; (c) Federal Home Loan Banks Consolidated Debt Obligations; (d) Federal National Mortgage Association Debt Obligations; and (e) Resolution Funding Corp. Debt Obligations.

The Series A Refunding Bonds. All or any portion of the outstanding maturities of the Series A Refunding Bonds may be defeased at any time prior to maturity in the following ways:

(i) by irrevocably depositing with the County or the Paying Agent an amount of cash which, together with amounts then on deposit in the Debt Service Fund for the Series A Refunding Bonds, is sufficient to pay all Series A Refunding Bonds outstanding and designated for defeasance, including all principal thereof and interest and redemption premium thereon, if any; or

(ii) by irrevocably depositing with the County or the Paying Agent, (a) non-callable and non-prepayable Federal Securities, (b) evidences of ownership of proportionate interests in future interest and principal payments on U.S. Treasury obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying U.S. Treasury obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, or (c) pre-refunded municipal obligations rated "AAA" by Fitch, if Fitch has rated the Series A Refunding Bonds, and/or "Aaa" by Moody's, if Moody's has rated the Series A Refunding Bonds, and/or "AAA" by S&P, if S&P has rated the Series A Refunding Bonds or (d) an investment contract with a provider rated "AAA" by Fitch, if Fitch has rated the Series A Refunding Bonds, and/or "Aaa" by Moody's, if Moody's has rated the Series A Refunding Bonds, and/or "AAA" by S&P, if S&P has rated the Series A Refunding Bonds and comprised of Federal Securities, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund for the Series A Refunding Bonds together with the interest to accrue thereon, be fully sufficient to pay and discharge all the Series A Refunding Bonds of such series outstanding and designated for defeasance (including all principal thereof and interest and redemption premium, if any, thereon) at or before their maturity date.

"Federal Securities" shall mean:

(i) direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, (ii) obligations the payment of principal of and interest on which are guaranteed as to full and timely payment by the United States of America or (iii) non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States of America.

Application and Investment of Bond Proceeds

The net proceeds from the sale of the Measure Y Bonds will be applied to finance the costs of new construction, acquisition, rehabilitation and upgrading of school facilities and acquisition of equipment and to prepay base rental payments that the District is obligated to make in connection with the Refunded Certificates issued for such purposes. See "PLAN OF FINANCE." The portion of the Measure Y Series C Bonds and Measure Y Series D Bonds which are being applied to finance new projects will be deposited with the County to the credit of the Los Angeles Unified School District Building Fund (the "Building Fund"). Such net proceeds shall be used only for capital expenditures eligible under the Measure Y authorization. The portion of the proceeds of the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series D Bonds which are being applied to pay the Refunded Certificates will be deposited in the Measure Y Escrow Fund as described under "PLAN OF FINANCE – The Measure Y Bonds" and will be invested in accordance with the Measure Y Escrow Agreement.

A portion of the net proceeds from the sale of the Series A Refunding Bonds will be deposited with the Series A Refunding Escrow Agent to the credit of the Series A Refunding Escrow Fund. Such net proceeds shall be used to advance refund and defease the Refunded Bonds. See "PLAN OF FINANCE – The Series A Refunding Bonds" herein. The remaining net proceeds from the sale of the Series A Refunding Bonds will be used to pay costs of issuance as set forth in "ESTIMATED SOURCES AND USES OF FUNDS – The Series A Refunding Bonds" herein.

Any net original issue premium from the sale of the Measure Y Bonds received by the District will be deposited in the Debt Service Fund for the Measure Y Bonds and used only for payment of principal of and interest on the Measure Y Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS." Except as required to be rebated to the United States Treasury, interest earned on the investment of moneys held in the Debt Service Fund will be retained in such Debt Service Fund and used to pay principal of and interest on the applicable Bonds when due. Interest earned on the investment of moneys held in the Building Fund relating to the Measure Y Bonds will be retained in the Building Fund and used for capital expenditures eligible under the Measure Y authorization.

Moneys in the Debt Service Fund for the Measure Y Bonds and the Debt Service Fund for the Series A Refunding Bonds (collectively, the "Debt Service Funds") and in the Building 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 of the State ("Government Code"), or in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating the applicable Bonds necessary to maintain the then-current ratings on the applicable Bonds. See APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL."

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Description

The Bonds constitute general obligations of the District. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds. Such taxes are in addition to other taxes levied upon property within the District. Such taxes, when collected, will be placed by the County in the District's Debt Service Funds, which are required to be maintained by the County, and such taxes will be used solely for the payment of principal and interest on the Measure Y Bonds or the Series A Refunding Bonds, as applicable.

Fiscal Year Debt Service

The following Table 3 sets forth the semi-annual debt service obligations in each Fiscal Year for all of the District's outstanding general obligation bonds, including the Bonds. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—District Debt."

TABLE 3

Los Angeles Unified School District
General Obligation Bonds, Semi-Annual Debt Service Schedule

(As of February 8, 2006)

Payment Date	Election of 1997 Bonds	Election of 2002 Bonds[4]	Election of 2004 Series A-F[1]	Election of 2005, Series A, Series B, Series C and Series D (2006)[2]	2006 Refunding Bonds, Series A[3]	Fiscal Year Totals[5]
July 1, 2006	$ 117,700,350.64	$ 54,717,825.00	$ 85,140,329.84	$ 6,853,080.84	$ 2,370,822.92	$266,782,409.24
January 1, 2007	51,684,193.14	48,774,191.25	24,293,115.63	9,562,438.38	3,308,125.00	
July 1, 2007	119,234,193.14	58,944,191.25	84,818,115.63	9,562,438.38	3,308,125.00	413,489,126.80
January 1, 2008	50,096,285.01	48,664,863.75	23,021,990.63	9,562,438.38	3,308,125.00	
July 1, 2008	120,841,285.01	63,409,863.75	80,871,990.63	37,932,438.38	3,308,125.00	441,017,405.54
January 1, 2009	48,443,880.01	48,473,178.75	21,789,488.13	8,927,785.26	3,308,125.00	
July 1, 2009	122,423,880.01	68,153,178.75	82,174,488.13	48,272,785.26	3,308,125.00	455,274,914.30
January 1, 2010	46,776,296.26	48,177,978.75	20,472,710.63	7,999,411.26	3,308,125.00	
July 1, 2010	123,411,296.26	73,292,978.75	44,742,710.63	44,579,411.26	3,308,125.00	416,069,043.80
January 1, 2011	44,909,048.13	47,655,928.75	19,991,099.38	7,128,623.76	3,308,125.00	
July 1, 2011	124,469,048.13	78,825,928.75	45,276,099.38	42,008,623.76	3,308,125.00	416,880,650.04
January 1, 2012	42,890,793.13	46,925,398.75	19,452,130.63	6,265,342.51	3,308,125.00	
July 1, 2012	126,175,793.13	84,780,398.75	45,872,130.63	42,835,342.51	3,308,125.00	421,813,580.04
January 1, 2013	40,764,620.63	45,953,165.00	18,856,186.88	5,382,367.51	3,308,125.00	
July 1, 2013	129,079,620.63	91,028,165.00	46,471,186.88	32,027,367.51	3,308,125.00	416,178,930.04
January 1, 2014	38,366,985.63	44,887,807.50	18,249,786.88	4,718,173.75	3,308,125.00	
July 1, 2014	131,526,985.63	97,707,807.50	47,134,786.88	24,703,173.75	3,308,125.00	413,911,757.52
January 1, 2015	35,820,201.88	43,587,876.25	17,592,893.13	4,192,355.00	3,308,125.00	
July 1, 2015	134,185,201.88	104,927,876.25	47,837,893.13	12,272,355.00	3,308,125.00	407,032,902.52
January 1, 2016	33,189,794.38	41,957,951.25	16,891,038.13	4,001,125.00	3,308,125.00	
July 1, 2016	136,849,794.38	112,597,951.25	48,596,038.13	12,451,125.00	3,308,125.00	413,151,067.52
January 1, 2017	30,437,220.63	40,094,573.12	16,132,497.50	3,800,309.38	3,308,125.00	
July 1, 2017	139,432,220.63	79,349,573.12	49,407,497.50	12,650,309.38	45,013,125.00	419,625,451.26
January 1, 2018	27,593,224.38	39,056,203.75	15,322,153.75	3,588,684.38	2,265,500.00	
July 1, 2018	143,393,224.38	40,131,203.75	50,257,153.75	12,863,684.38	92,885,500.00	427,356,532.52
January 1, 2019	24,566,161.88	39,032,553.75	14,469,103.75	3,366,809.38		
July 1, 2019	146,801,161.88	148,557,553.75	51,164,103.75	13,081,809.38		441,039,257.52
January 1, 2020	21,511,224.38	36,161,460.00	13,552,978.75	3,134,334.38		
July 1, 2020	149,966,224.38	160,636,460.00	52,112,978.75	13,314,334.38		450,389,995.02
January 1, 2021	18,284,855.63	32,906,628.75	12,605,188.75	2,890,634.38		
July 1, 2021	153,269,855.63	174,071,628.75	53,100,188.75	13,550,634.38		460,679,615.02
January 1, 2022	14,894,959.38	29,379,523.75	11,613,428.75	2,634,706.88		
July 1, 2022	156,819,959.38	189,379,523.75	54,153,428.75	13,804,706.88		472,680,237.52
January 1, 2023	11,330,221.88	25,382,718.75	10,558,591.25	2,365,778.75		
July 1, 2023	142,375,221.88	207,072,718.75	55,263,591.25	13,005,778.75		467,354,621.26
January 1, 2024	8,068,259.38	20,846,875.00	9,448,798.75	2,105,218.75		
July 1, 2024	120,973,259.38	227,876,875.00	56,428,798.75	13,265,218.75		459,013,303.76
January 1, 2025	5,262,390.63	15,671,125.00	8,281,843.75	1,831,525.00		
July 1, 2025	102,992,390.63	207,461,125.00	57,651,843.75	13,056,525.00		412,208,768.76
January 1, 2026	2,794,181.25	10,895,418.75	7,054,625.00	1,554,365.00		
July 1, 2026	57,514,181.25	221,215,418.75	58,914,625.00	13,334,365.00		373,277,180.00
January 1, 2027	22,158,215.63	5,658,306.25	5,793,518.75	1,263,487.50		
July 1, 2027	18,516,625.00	119,278,306.25	60,258,518.75	13,618,487.50		246,545,465.63
January 1, 2028	18,070,750.00	116,444,093.75	4,434,000.00	958,375.00		
July 1, 2028			61,684,000.00	13,928,375.00		215,519,593.75
January 1, 2029			3,002,750.00	637,500.00		
July 1, 2029			63,182,750.00	13,077,500.00		79,900,500.00
January 1, 2030			1,498,250.00	326,500.00		
July 1, 2030			61,428,250.00	13,386,500.00		76,639,500.00
Total	$3,355,865,536.51	$3,540,004,372.49	$1,778,321,667.44	$597,634,660.02	$212,005,572.92	$9,483,831,809.38

(1) Includes the Series F (2006) General Obligation Bonds sold in January 2006 and expected to be issued on February 16, 2006.
(2) Measure Y Series A Bonds, Measure Y Series B Bonds, Measure Y Series C Bonds and Measure Y Series D Bonds (2006) General Obligation Bonds described in this Official Statement.
(3) Series A Refunding Bonds described in the Official Statement.
(4) Reflects the debt service on the Election of 2002 Bonds outstanding under the Measure K Authorization after the refunding of the Refunded Bonds.
(5) The debt service due on January 1 and July 1 of any calendar year is paid from taxes levied during the fiscal year which ends on June 30 of such year.

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.

California 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.

The 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 K-12 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.

Taxable property is shown at full market value on the tax rolls, being $1 per $100 of taxable value. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Legislation Implementing Article XIIIA." In Fiscal Year 2005-06, the District's total net secured and unsecured assessed valuation is $363.9 billion. The net assessed valuation of property in the District for each Fiscal Year from Fiscal Year 1996-97 through Fiscal Year 2005-06 is set forth in Table 4 below.

TABLE 4

Los Angeles Unified School District
Historical Assessed Valuations
Fiscal Years 1996-97 through 2005-06
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total	Increase (Decrease) From Prior Year	Percent Increase (Decrease)
1997	$200,262,164	$16,103,648	$216,365,812	$ (3,421,355)	(1.56)%
1998	200,529,601	16,934,361	217,463,962	1,098,150	0.51
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

(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.

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 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 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.

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 5 sets forth the actual and projected tax rates for Proposition BB, Measure K, Measure R and Measure Y from Fiscal Year 2000-01 through 2006-07.

TABLE 5

Los Angeles Unified School District
Actual and Projected Tax Rates
Fiscal Years 2000-01 through 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[1]	44.64	40.25	29.05	$3.43

(1) Estimated.

Source: Los Angeles Unified School District.

The following Table 6 shows real property tax levies, collections and delinquencies and the total tax rate in the District from Fiscal Year 1995-96 through Fiscal Year 2004-05.

TABLE 6

Los Angeles Unified School District
Summary of Property Tax Levies, Collections and Tax Rates
Fiscal Years 1995-96 through 2004-05
($ 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]
1996	$419,719	$425,804	$818,221	$24,040	2.94%	1.003358%
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	582,436	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	1,091,325	34,128	3.13	1.088839

(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) Through Fiscal Year 2004-05, 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 tax rate related to the District's outstanding general obligation bonds.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years ended June 30, 1996 through 2005.

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2004-05 are set forth in Table 7 below.

TABLE 7

Los Angeles Unified School District
Largest Local Secured Taxpayers
Fiscal Year 2004-05

	Property Owner[1]	Primary Land Use	Fiscal Year 2004-05 Assessed Valuation	% of Total[2]
1.	Douglas Emmett Realty Funds	Office Building	$1,345,293,439	0.43%
2.	Universal Studios LLC	Motion Picture Studio	1,286,002,903	0.41
3.	Arden Realty Finance Partnership	Office Building	895,745,737	0.29
4.	Anheuser Busch Inc.	Industrial	764,527,064	0.25
5.	One Hundred Towers LLC	Office Building	521,447,324	0.17
6.	Maguire Partners 355 S. Grand LLC	Office Building	460,855,687	0.15
7.	Dusenberg Investment Company	Office Building	375,441,587	0.12
8.	Paramount Pictures Corp.	Motion Picture Studio	359,197,153	0.12
9.	Century City Mall LLC	Shopping Center Mall	336,758,548	0.11
10.	Trizechahn Hollywood LLC	Retail/Entertainment	326,624,335	0.11
11.	1999 Stars LLC	Office Building	315,670,600	0.10
12.	AP Properties Ltd.	Commercial	310,577,294	0.10
13.	Casden Properties	Apartments	289,765,194	0.09
14.	Twentieth Century Fox Film Corp.	Motion Picture Studio	287,958,493	0.09
15.	Maguire Properties 555 W. Fifth LLC	Office Building	283,000,000	0.09
16.	Prime Park La Brea Holdings	Apartments	275,724,296	0.09
17.	South Hope Street LLC	Office Building	275,040,900	0.09
18.	TPG Plaza Investments LLC	Office Building	275,040,900	0.09
19.	2121 Avenue of the Stars LLC	Office Building	260,000,000	0.08
20.	Donald T. Sterling	Apartments	257,073,194	0.08
			$9,501,744,648	3.05%

(1) Excludes taxpayers with values derived from mineral rights and/or possessory interest. Historically, among the top ten 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 table above but were the top one, two and five taxpayers, respectively, within the District in Fiscal Year 2004-05.

(2) Calculated based on a Fiscal Year 2004-05 Local Secured Assessed Valuation of $311,060,694,712, which excludes unitary values and assessed values derived from mineral rights and/or possessory interests. Total Fiscal Year 2004-05 Local Secured Assessed Valuation including unitary values and assessed value derived from mineral rights and/or possessory interests is $311,419,821,842 as reflected in Table 4 entitled "Los Angeles Unified School District Historical Assessed Valuations."

Source: California Municipal Statistics, Inc.

BOND INSURANCE

General

The scheduled payment of principal of and interest on the AMBAC Insured Bonds when due will be insured by the Ambac Insurance Policy to be issued simultaneously with the delivery of the Ambac Insured Bonds by Ambac. See APPENDIX G – "Form of AMBAC Financial Guaranty Insurance Policy" attached hereto. The scheduled payment of principal of and interest on the MBIA Insured Bonds when due will be insured by the MBIA Insurance Policy to be issued simultaneously with the delivery of the MBIA Insured Bonds by MBIA. See APPENDIX H – "Form of MBIA Financial Guaranty Insurance Policy" attached hereto.

Ambac Assurance Corporation

The following information concerning Ambac Assurance and the Ambac Insurance Policy has been provided by Ambac and has not been independently certified or verified by the District or the Underwriters. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to APPENDIX G for a specimen of Ambac Insurance Policy.

Payment Pursuant to Ambac Insurance Policy. Ambac has made a commitment to issue a financial guaranty insurance policy (the "Ambac Insurance Policy") relating to the Ambac Insured Bonds effective as of the date of issuance of the Ambac Insured Bonds. Under the terms of the Ambac Insurance Policy, Ambac 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 Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Ambac Insurance Policy). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac.

The Ambac 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 Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds 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 Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on an Ambac Insured Bond 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 its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Ambac Insurance Policy. Specifically, the Ambac 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.

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

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

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

In the event that Ambac 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.

Ambac Assurance Corporation. Ambac Assurance Corporation ("Ambac") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and 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 $8,585,000,000 (unaudited) and statutory capital of approximately $5,251,000,000 (unaudited) as of March 31, 2005. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac 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 under policy provisions substantially identical to those contained in its 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 of the Ambac Insured Bonds.

Ambac makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac and presented under the heading "BOND INSURANCE — Ambac Assurance Corporation – Payment Pursuant to Ambac Insurance Policy," "—Ambac Assurance Corporation," "—Available Information," and "—Incorporation of Certain Documents by Reference."

Available Information. The parent company of Ambac, 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 450 Fifth Street, N.W., 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. (the "NYSE"), 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 and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (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, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3 and filed on April 20, 2005;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005; and

6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005.

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 MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix H for a specimen of MBIA's Insurance Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the MBIA Insurance Policy and MBIA set forth under the heading "BOND INSURANCE - The MBIA Insurance Corporation Insurance Policy." Additionally, MBIA makes no representation regarding the MBIA Insured Bonds or the advisability of investing in the MBIA Insured Bonds.

The MBIA Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA Insured Bonds. MBIA Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA Insurance Policy also does not insure against nonpayment of principal of or interest on the MBIA Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the MBIA Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series A Refunding Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation. As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA Insured Bonds. MBIA does not guaranty the market price of the MBIA Insured Bonds nor does it guaranty that the ratings on the MBIA Insured Bonds will not be revised or withdrawn.

MBIA Financial Information. As of December 31, 2004, MBIA had admitted assets of $10.3 billion (unaudited and restated), total liabilities of $7.0 billion (unaudited and restated), and total capital and surplus of $3.2 billion (unaudited and restated) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2005 MBIA had admitted assets of $10.8 billion (unaudited), total liabilities of $7.1 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2005 and for the nine month periods ended September 30, 2005 and September 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

The Company's Annual Report on Form 10-K/A for the year ended December 31, 2004; and

The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K/A, and prior to the termination of the offering of the MBIA Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 (included as restated in third quarter 10-Q) and September 30, 2005) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event MBIA were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

There can be no assurances that payments made by MBIA representing interest on the MBIA Insured Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the District.

TAX MATTERS

Measure Y Series A Bonds, Measure Y Series B Bonds, Measure Y Series C Bonds and Series A Refunding Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), contains certain requirements that must be met subsequent to the issuance and delivery of the Measure Y Series A Bonds, the Measure Y Series B Bonds, the Measure Y Series C Bonds and the Series A Refunding Bonds (collectively, the "Tax-Exempt Bonds") for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Tax-Exempt Bonds. The District has covenanted in its resolutions authorizing the issuance of the Bonds and Series A Refunding Bonds that it will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Tax-Exempt Bonds under Section 103 of the Code.

As set forth under "PLAN OF FINANCE" herein, on January 31, 2006, the District has entered into a written contract to sell $500,000,000 of general obligation bonds under Measure R (the "Measure R Bonds"). Since the Measure R Bonds were sold within 15 days of the date the District entered into a written contract to sell the Tax-Exempt Bonds, the Measure R Bonds and the Tax-Exempt Bonds will be treated as a single issue for federal income tax purposes, and as such, any actions of the District regarding the use, expenditure and investment of proceeds of the Measure R Bonds and the timely payment of certain investment earnings to the United States may affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds. The District has covenanted in its resolution authorizing the issuance of the Measure R Bonds (the "Measure R Resolution") that will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Measure R Bonds under Section 103 of the Code. Noncompliance with such covenant could cause the interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Tax-Exempt Bonds. References to the Tax-Exempt Bonds and the Resolution in the following discussion shall include the Measure R Bonds and the Measure R Resolution, respectively.

General. In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing law and assuming compliance with certain covenants in the Resolution and the Tax Certificate executed by the District on the Closing Date for the Tax-Exempt Bonds and the requirements of the Code regarding the use, expenditure and investment of proceeds of the Tax-Exempt Bonds and the timely payment of certain investment earnings to the United States, interest on the Tax-Exempt Bonds is not includable in the gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Tax-Exempt Bonds to be included in gross income retroactively to the date of issuance of the Tax-Exempt Bonds.

In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Tax-Exempt Bonds, 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. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Resolutions or other documents pertaining to the Tax-Exempt Bonds 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. Bond Counsel renders no opinion as to the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes 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 Bond Counsel.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Tax-Exempt Bonds will not have an adverse effect on the tax-exempt status of the Tax-Exempt Bonds. Legislation or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Tax-Exempt Bonds.

In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is exempt from personal income taxes imposed by the State. A copy of the proposed forms of opinions of Bond Counsel are attached hereto as Appendix D.

Original Issue Discount. The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Tax-Exempt Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Tax-Exempt Bonds. In general, the issue price of a maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such substantially identical Tax-Exempt Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

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

Measure Y Series D Bonds

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Circular 230 Notice. Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Measure Y Series D Bonds was written in connection with the promotion and marketing by the Underwriters of the transactions described in this Official Statement. Such discussion is not intended/or written to be legal or tax advice with respect to the Measure Y Series D Bonds to any person and is not intended/or written to be used, and cannot be used, by any person for the purpose of avoiding any U. S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

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In General. Interest on the Measure Y Series D Bonds (also referred to herein as the "Series D Bonds") will be includable in the gross income of the owners thereof for purposes of federal income taxation. *See* "Certain U.S. Federal Income Tax Considerations" below. In the opinion of Bond Counsel, interest on the Measure Y Series D Bonds is exempt from personal income taxes imposed by the State.

Certain U.S. Federal Income Tax Considerations. The following summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the Measure Y Series D Bonds is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates) or possible differing interpretations. It deals only with Measure Y Series D Bonds held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, persons holding Measure Y Series D Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the U.S. dollar. It also does not deal with holders other than original purchasers (except where otherwise specifically noted). Persons considering the purchase of the Measure Y Series D Bonds should consult their own tax advisors concerning the application of U. S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Measure Y Series D Bonds arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Series D Bond that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation or partnership (including an entity treated as a corporation or partnership for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia (unless, in the case of a partnership, Treasury regulations are adopted that provide otherwise), (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (v) any other person whose income or gain in respect of a Series D Bond is effectively connected with the conduct of a United States trade or business. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons under the Code, and applicable Treasury regulations thereunder prior to such date, that elect to continue to be treated as United States persons under the Code or applicable Treasury regulations thereunder also will be U.S. Holders. Moreover, as used herein, the term "U.S. Holder" includes any holder of a Series D Bond whose income or gain in respect to its investment in a Series D Bond is effectively connected with the U.S. trade or business.

Payments of Interest. Payments of interest on a Series D Bond generally will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting).

Original Issue Discount. The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Measure Y Series D Bonds issued with original issue discount ("Series D Discount Bonds"). The following summary is based upon final Treasury regulations (the "OID Regulations") released by the Internal Revenue Service ("IRS") under the original issue discount provisions of the Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally 1/4 of 1% of the bond's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each Series D Bond in an issue of Measure Y Series D Bonds equals the first price at which a substantial amount of such Measure Y Series D Bonds has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Series D Bond is the sum of all payments provided by the Series D Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

Payments of qualified stated interest on a Series D Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting). A U.S. Holder of a Series D Discount Bond must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Series D Discount Bond is the sum of the daily portions of original issue discount with respect to such Series D Discount Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Series D Discount Bond. The "daily portion" of original issue discount on any Series D Discount Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the Series D Discount Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Series D Discount Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Series D Discount Bond at the beginning of any accrual period is the sum of the issue price of the Series D Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Series D Discount Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases a Series D Discount Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the Series D Discount Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Series D Discount Bond at an "acquisition premium." Under the acquisition premium rules, the amount of original issue discount which such U.S. Holder must include in its gross income with respect to such Series D Discount Bond for any taxable year (or portion thereof in which the U.S. Holder holds the Series D Discount Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. If a U.S. Holder purchases a Series D Bond, other than a Series D Discount Bond, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of a Series D Discount Bond, for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Series D Bond at a "market discount," unless the amount of such market discount is less than a specified *de minimis* amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment (or, in the case of a Series D Discount Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Series D Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in income and is treated as having accrued on such Series D Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Series D Bond, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Series D Bond with market discount until the maturity of the Series D Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Series D Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for U. S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Premium. If a U.S. Holder purchases a Series D Bond for an amount that is greater than the sum of all amounts payable on the Series D Bond after the purchase date other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the Series D Bond with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Series D Bond and may offset interest otherwise required to be included in respect of the Series D Bond during any taxable year by the amortized amount of such excess for the taxable year. However, if the Series D Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the Series D Bond. Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Disposition of a Series D Bond. Except as discussed above, upon the sale, exchange or retirement of a Series D Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's adjusted tax basis in the Series D Bond. A U.S. Holder's adjusted tax basis in a Series D Bond generally will equal such U.S. Holder's initial investment in the Series D Bond increased by any original issue discount included in income (and accrued market discount, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Series D Bond. Such gain or loss generally will be long-term capital gain or loss if the Series D Bond had been held at the time of disposition for more than one year.

Backup Withholding. Backup withholding of U.S. federal income tax may apply to payments made in respect of the Measure Y Series D Bonds to registered holders who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Measure Y Series D Bonds to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or establishes an exemption.

Any 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 U.S. federal income tax provided the required information is furnished to the IRS.

Legal Defeasance of the Measure Y Series D Bonds. The resolution adopted by the Board of Supervisors of the County authorizing the issuance of the Measure Y Series D Bonds, provides that the Measure Y Series D Bonds or any portion thereof will be legally defeased and the District will be released from all liability to make payments on the Measure Y Series D Bonds, other than out of moneys on deposit in the interest and sinking fund, or otherwise held in trust for, such payment, upon the making of certain deposits described therein. Owners of the Measure Y Series D Bonds should be aware that a legal defeasance of the Measure Y Series D Bonds or any portion thereof will result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of gain or loss (depending on the owner's adjusted basis in such Measure Y Series D Bonds at the time of such deemed exchange) for federal income tax purposes, without any corresponding receipt of moneys. In addition, for U.S. federal income tax purposes, the character and timing of receipt of payments on Measure Y Series D Bonds subsequent to any such legal defeasance will also be affected. Purchasers of Measure Y Series D Bonds should consult their own tax advisors with respect to the more detailed consequences to them of such defeasance, including the applicability and effect of tax laws other than federal income tax laws.

LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds 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 2005-06, 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 Bonds. 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 – "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Annual Report for Fiscal Year 2002-03 was filed late by the District, for which the District provided notice of its failure to file such Annual Report 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 the Rule.

Limitation on Remedies

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a California statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a state statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such funds could be traced. The County on behalf of the District is expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Treasury Pool (as described in Appendix F hereafter referred to). See APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL." Accordingly, in the event the District or the County were to petition for the adjustment of its debts under Chapter 9 of the federal bankruptcy code, a court might hold that the owners of the Bonds do not have a valid lien on the taxes when collected and deposited in the Debt Service Fund where such amounts are deposited in the Treasury Pool, and such lien may not provide the Bond owners with a priority interest in such amounts. In that circumstance, unless such owners could "trace" the funds, the owners would be only unsecured creditors of the District. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the Debt Service Funds where such amounts are invested in the Treasury Pool.

No Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue and retire the Bonds.

There are a number of lawsuits and claims pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the finances of the District.

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. The proposed forms of Bond Counsel opinions are attached hereto as Appendix D. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

FINANCIAL STATEMENTS

The general purpose financial statements of the District for the Fiscal Year ended June 30, 2005, pertinent 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. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated December 22, 2005.

MISCELLANEOUS

Ratings

Moody's, S&P and Fitch Ratings have assigned their municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Insured Bonds with the understanding that upon the delivery of the Insured Bonds, Ambac will issue its financial guaranty insurance policy with respect to the Ambac Insured Bonds and MBIA will issue its financial guaranty insurance policy with respect to the MBIA Insured Bonds. The underlying and uninsured ratings on the Bonds are "Aa3" by Moody's, "AA-" by S&P and "A+" by Fitch Ratings. The District has furnished to each rating agency certain materials and information with respect to itself and the Bonds. Generally, rating agencies base their ratings on such information and materials and on their own investigations, studies and assumptions. Each rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained only from the issuing rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, telephone: (212) 533-0300, Standard & Poor's, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124 and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone: (212) 908-0500. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

Co-Financial Advisors

The District has retained Tamalpais Advisors, Inc. and Kelling, Northcross & Nobriga, A Joint Venture, as Co-Financial Advisors (the "Co-Financial Advisors") in connection with the execution and delivery of the Bonds and certain other financial matters. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other negotiable instruments.

Verification Agent

On the date of delivery and payment, a portion of the proceeds of the Measure Y Series A Bonds, Measure Y Series B Bonds and Measure Y Series D will be used to purchase eligible securities (the "Measure Y Escrowed Obligations") to be held in trust by the Measure Y Escrow Agent to provide for payment of principal of and interest and premium with respect to the Refunded Certificates through their respective payment dates and prepayment dates, and the Series A Refunding Bonds will be used to purchase eligible securities (the "Series A Refunding Escrowed Obligations" and, together with the Measure Y Escrowed Obligations, the "Escrow Obligations") to be held in trust by the Series A Refunding Escrow Agent to provide for payment of principal of and interest on the Refunded Bonds through their respective redemption dates. See "PLAN OF FINANCE." The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the District relating to (a) computation of anticipated receipts of principal and interest on the Measure Y Escrowed Obligations to pay the regularly scheduled base rental payments on the Refunded Certificates until the respective payment dates and to redeem the Refunded Certificates on those respective prepayment dates, and on the Series A Refunding Escrowed Obligations to pay the regularly scheduled debt service on the Refunded Bonds until their respective redemption dates and to redeem the Refunded Bonds on those respective call dates, and (b) computation of yields on the portion of the Measure Y Bonds that will be applied to pay the Refunded Certificates, the Series A Refunding Bonds and the Escrowed Obligations will be verified by Causey Demgen & Moore Inc., certified public accountants. Such computations are based solely upon assumptions and information supplied by or on behalf of the District. Causey Demgen & Moore Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

Underwriting

Banc of America Securities, LLC as representative of itself and the other underwriters listed on the front cover hereof (collectively, the "Underwriters"), has agreed to purchase (i) the Measure Y Bonds at the purchase price of $413,477,030.90 (which reflects an underwriters' discount of $581,189.40 and an original issue premium of $19,673,220.30) and (ii) the Series A Refunding Bonds at the purchase price of $142,939,855.43 (which reflects an underwriters' discount of $190,724.92 and an original issue premium of $10,805,580.35). The Bond Purchase Agreement pursuant to which the Underwriters are purchasing the Bonds (the "Purchase Agreement") provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Resolutions providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents described herein do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not a contract or agreement between the District and the purchasers or owners of any of the Bonds.

The District has duly authorized the execution and delivery of this Official Statement.

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: /s/ Charles A. Burbridge
Chief Financial Officer

APPENDIX A

DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

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APPENDIX A

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 is provided as supplementary information only. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County of Los Angeles (the "County") in an amount sufficient for the payment thereof. Principal of and interest on the Bonds is not payable from the General Fund of the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the forepart of this Official Statement. Investors must read the entire Official Statement, including 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 is the Superintendent of Schools (the "Superintendent"). Roy Romer, former Governor of Colorado, serves as Superintendent. Brief biographical information for Superintendent Romer and other senior management of the District, is set forth below.

Roy Romer, Superintendent of Schools. Roy Romer was named the 45th Superintendent of Schools of the District by the Board on June 6, 2000. His current contract extends through June 2007. Superintendent Romer's top priorities at the District have been the improvement of math and reading scores in the elementary grades and secondary schools. Other priorities of Superintendent Romer include the construction of new schools to relieve overcrowding, as well as the development of small learning communities at new schools and in existing large high school complexes.

Superintendent Romer's career experience has included the private sector, politics and education. Superintendent Romer was Governor of Colorado for three terms, from 1986 to 1998, during which time he became the nation's senior Democratic governor, and he was the general chairman of the Democratic National Committee from 1997 to 2000. He has long been an advocate for educational issues at the state and national levels. He was vice chair of the Democratic Leadership Council, an information-age "think tank" that examines national political and policy issues, where he studied effective educational strategies and school reform initiatives. He has also served as chair of the Educational Commission of the States and the National Education Goals Panel.

Superintendent Romer holds a Bachelor's Degree in Agricultural Economics from Colorado State University (1950) and a law degree from the University of Colorado (1952); he also studied ethics at Yale University. He was a legal officer in the United States Air Force, practiced law in Denver in the 1950s and 1960s and has been involved in a family-owned agriculture and agricultural equipment business for many years.

Dan M. Isaacs, Chief Operating Officer. Dan M. Isaacs was named Chief Operating Officer of the District in April 2005. Prior to being named as Chief Operating Officer, Mr. Isaacs was the Administrator of the Associated Administrators of Los Angeles ("AALA") which represents the middle managers in the District in ensuring that members have the protection of due process, as contained in the collective bargaining agreement between the AALA and the District. From 1993 to 2000, Mr. Isaacs was the Assistant Superintendent of School Operations of the District, during which time he oversaw school operations for 640 schools and was responsible for school safety, supervision of interscholastic athletics and coordination of the academic decathlon program and student leadership activities. Mr. Isaacs' prior experience also includes serving as a principal of several high schools.

Mr. Isaacs graduated with a Bachelor of Arts in History from the University of California, Los Angeles and received a Master of Science in Education from California State University, Northridge.

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 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).

Charles A. Burbridge, Chief Financial Officer. Charles A. Burbridge was appointed Chief Financial Officer of the District in May 2005. Prior to his appointment, Mr. Burbridge served as Deputy Chief Financial Officer of the District from 2003 to 2005. Mr. Burbridge was formerly the Director of State and Local Government Management Assurance Services at KPMG LLP, where he provided professional advice on school finances and operations for various audits. He has also served in various positions in the public sector since 1977, including as the Deputy Chief Financial Officer for the Chicago Public Schools, a position he held for five years, and as Deputy Chief Financial Officer of Cook County, Illinois, where he devised and implemented system efficiencies.

Mr. Burbridge received both a Bachelor of Arts and a Masters Degree in Economics from the University of Illinois in Springfield, Illinois. He is a member of the Institute of Internal Auditors, the Information Systems Audit and Control Association, the Government Financial Officers Association and the Association of College and University Auditors.

Betty T. Ng, Controller. Betty T. Ng was named Controller of the District in October 2005. She is responsible for supervising all accounting functions of the District, including business accounting, general accounting, accounts payable and payroll. Ms. Ng has nearly twenty-five years of experience in California public school financial management. Prior to joining the District, she was the Director of School Financial Services for the Los Angeles County Office of Education ("LACOE") for twelve years. At LACOE, Ms. Ng provided financial services to over 200 local educational agencies in Los Angeles in the areas of accounting, accounts payable, payroll, retirement reporting, teacher certification and functional system support (for over 4,000 users). She also was employed by Montebello Unified School District for over twelve years, where her final position was Director of Accounting.

Ms. Ng earned a Bachelor's Degree in Economics from the University of California, Los Angeles in 1978. She teaches Accounting and Auditing Procedures in Education Institutions for the School Business Management Certificate Program at the University of Southern California on a part-time basis. Ms. Ng is an active member of California Association of School Business Officials (CASBO) and has held numerous leadership positions for over ten years, including Southern Section President.

James McConnell, Chief Facilities Executive. James McConnell became Chief Facilities Executive for the District in April 2001 and is responsible for facilities planning and operations. He has submitted his resignation to be effective as of June 30, 2006. Captain McConnell formerly served as Captain with the Civil Engineer Corps of the United States Navy. Captain McConnell commanded at the Naval Construction Battalion Center, Port Hueneme, California, before his retirement from the Civil Engineer Corps in 2001. His Civil Engineer Corps experience also included responsibility for the Navy's most complex construction challenge during the period from 1995 to 1998, a $600 million recapitalization program for two United States naval bases in southern Italy.

Captain McConnell is a graduate of the United States Naval Academy (1975). He was commissioned an Ensign in the Civil Engineer Corps and served in a variety of assignments including public works and construction contracting duty, four deployments with the Seabees and two other Seabee-related tours. Captain McConnell attended graduate school at the University of Pittsburgh, where he earned a Master's Degree in Civil Engineering (1977). He also graduated from Carnegie Mellon Program for Executives (1997) and is a Registered Professional Engineer in the Commonwealth of Virginia.

Facilities and Staff

As of June 30, 2005, the District operated 432 elementary schools, 74 middle/junior high schools, 53 senior high schools, 8 multi-level schools, 59 options high schools, 22 magnet schools and 138 magnet centers, 18 special education schools, 100 early childhood education centers, 24 community adult schools, 5 regional occupational centers, 5 skills centers, one regional occupational program center, 5 infant centers, 26 primary school centers and one newcomer school. In addition, as of June 30, 2005, the District operated 10 dependent charter schools and there are 59 fiscally-independent charter schools within the District's boundaries. The District estimates that in Fiscal Year 2005-06 there will be 76 independent charter schools within the District's boundaries with approximately $233.2 million in aggregate projected Fiscal Year 2005-06 revenues. 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"), are not included in the District's audit report, and function like an independent agency, including having control over their staffing and budget.

As of June 30, 2005, the District employed approximately 45,647 certificated (full-time equivalent) employees and approximately 32,669 classified (full-time equivalent) employees and approximately 27,041 non-regular employees. The District also employs part-time or temporary employees.

Enrollment

K-12 School Enrollment (as defined below) was approximately 746,610 (727,133 in regular District schools and 19,477 in independent charter schools) for Fiscal Year 2003-04 and was approximately 742,090 (718,238 in regular District schools and 23,852 in independent charter schools) for Fiscal Year 2004-05. As of October 2005, K-12 School Enrollment, excluding independent charter schools, was approximately 698,092. The following Table A-1 sets forth the population in the District and school enrollment information for the District for Fiscal Year 1995-96 through Fiscal Year 2004-05. 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 (including independent charter schools sponsored by the District), 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. "K-12 School Enrollment (Excluding Independent Charter Schools)" includes only the graded and ungraded enrollment for K-12 schools excluding independent charter schools. 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.

The following Table A-1 sets forth the population in the District and school enrollment information for the District for Fiscal Year 1995-96 through Fiscal Year 2004-05.

TABLE A-1

Los Angeles Unified School District
Population and School Enrollment Figures
Fiscal Years 1995-96 through 2004-05
(in thousands)

Fiscal Year Ended June 30	Population of District[(1)]	School Enrollment in District[(2)]	K-12 School Enrollment in District	K-12 School Enrollment (Excluding Independent Charter Schools)[(3)]
1996	4,432	819	649	--
1997	4,488	856	668	--
1998	4,542	879	682	--
1999	4,601	913	697	--
2000	4,675	875	711	--
2001	4,637	889	723	--
2002	4,503	907	737	731
2003	4,660	905	747	738
2004	4,718	891[(4)]	747	727
2005	4,776	879[(4)(5)]	742[(5)]	718[(5)]

(1) Based on estimates of City and County population as set forth in the Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Year 2004-05.
(2) Includes adult education and early education centers enrollment.
(3) The State did not require the reporting of this information prior to Fiscal Year 2001-02.
(4) School Enrollment in District for Fiscal Years 2003-04 and 2004-05 excludes independent charter schools. Prior to Fiscal Year 2003-04, School Enrollment in District included independent charter schools.
(5) As of October 2005, School Enrollment in the District, excluding independent charter schools, and K-12 School Enrollment in the District, excluding independent charter schools, were approximately 847,048 and 698,092, respectively.

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 1995-96 through 2004-05 and Los Angeles Unified School District 2005-06 Final Budget for columns entitled "K-12 School Enrollment District" and "K-12 Enrollment (Excluding Independent Charter Schools)."

As set forth in the District's 2005-06 Final Budget, the District's K-12 School Enrollment, including independent charter schools, is expected to decrease in Fiscal Year 2005-06 to approximately 737,155, and the District's K-12 School Enrollment, excluding independent charter schools, is also expected to decrease in Fiscal Year 2005-06 to approximately 709,325. As of October 2005, K-12 School Enrollment, excluding independent charter schools, was approximately 698,092, which is lower than the projected enrollment level included in the District's 2005-06 Final Budget. The District anticipates, based on certain demographic information that total K-12 School Enrollment, excluding independent charter schools, will continue to decrease annually over the next several years. Declining enrollment may 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 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. In addition, the District's 2005-06 Final Budget provides for increased enrollment in independent charter schools. Independent charter school enrollment is expected to increase in Fiscal Year 2005-06 to approximately 27,830. For additional information regarding enrollment in independent charter schools and a discussion of the resulting impact on the District's finances, see "STATE FUNDING OF EDUCATION – Charter School Funding."

Table A-2 below sets forth historical enrollment information for the District (excluding enrollment for independent charter schools) for Fiscal Years 2001-02 through 2004-05 and projected enrollment information for Fiscal Years 2005-06 through 2007-08.

TABLE A-2

Los Angeles Unified School District
District K-12 School Enrollment Excluding Independent Charter Schools
Historical and Projected Enrollment
Fiscal Years 2001-02 through 2007-08

	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Estimated[1]	2006-07 Estimated[1]	2007-08 Estimated[1]
Graded Enrollment							
K-5 enrollment	364,535	360,922	354,070	343,204	332,038	322,422	315,707
6-8 enrollment	156,877	161,215	160,283	158,536	157,785	158,522	156,852
9-12 enrollment	171,695	178,326	175,292	179,658	183,065	176,664	176,399
Total Graded Enrollment	693,107	700,463	689,645	681,398	672,888	657,608	648,958
Ungraded Enrollment	37,514	37,276	37,488	36,840	36,437	36,035	35,983
Total Graded and Ungraded enrollment	730,621	737,739	727,133	718,238	709,325	693,643	684,941

(1) The District uses data on live births in Los Angeles County and historical grade retention ratios, as well as economic factors and other relevant factors, to project enrollment.

Source: Los Angeles Unified School District 2005-06 Final Budget.

Academic Performance and Instructional Initiatives

During the last six years, the District has made substantial progress regarding its students' performance on the California Academic Performance Index ("API"). 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"). The State identified 152 school districts, independent charter schools and county offices of education in California, including the District, for Program Improvement in 2005. 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, an 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 an 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 and English learner students.

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. 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

Legislation has been introduced from time to time in the State legislature to change the governance structure of the District's Board, including for the Mayor of the City of Los Angeles to appoint certain Board members, and to divide the District into smaller school districts. Petitions have been occasionally filed with LACOE to divide certain 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. The evaluation of such petitions requires extensive review of ten critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates.

Under State law, an equitable allocation of existing District debt obligations would be required in any division of the District.

Presently, there is pending legislation which would change the governance structure of the District's Board. Proposed Senate Bill 767 would authorize the Mayor of the City of Los Angeles to, among other things, appoint members to fill any vacancies on the District's Board and to appoint a new member upon the expiration of the term of an incumbent member upon a finding of educational failure. There are no petitions pending with LACOE or CCSDO to divide the District. The District is unable to predict if Senate Bill 767 will be enacted or whether additional legislation will be enacted in the future to change the governance of the District, if additional legislation will be introduced or enacted in the future or petitions filed to create school districts within the District, or the impact that any such legislation or petitions would have on the District.

In Spring 2005, the Board and the Council of the City of Los Angeles announced the establishment of the Presidents' Joint Commission on LAUSD Governance (the "Joint Commission") to explore District governance issues and to make recommendations to improve academic achievement, increase parental involvement within the District and increase the effective use of District resources. The RAND Corporation, a nonprofit research organization ("RAND"), was engaged by the Joint Commission to provide research support and assistance. In December 2005, RAND released a draft of its report on the options for changing the governance system of the District (the "Draft Report"). The Draft Report summarizes options for the Joint Commission to consider in improving the District's governance system, including changing the District's size, changing control of the District, changing the Board's characteristics and selection mechanisms, altering the locus of control in the District and expanding school choices for parents. The Draft Report will be amended to include the Joint Commission's response and is scheduled to be completed before the end of the Commission's one-year tenure in Spring 2006.

Council of Great City Schools Report

In October 2004, the Board and the Superintendent requested the Council of the Great City Schools, a coalition of 66 of the nation's largest urban public school systems (the "Council"), to, among other things, review and propose ways to improve the District's overall organizational and administrative structure, and to increase the effectiveness and efficiency of the District's financial operations, business services, human resources and other services. The Council's findings included a set of strategic proposals to assist the District in its efforts to improve its management, operations, effectiveness and efficiency. The proposal focused on six major issues, including organization, accountability, business services, financial management, human resources and Enterprise Resource Planning. In general, the Council proposes a greater emphasis on integrating the organizational and management structure of the District's operations and not a reorganization of the District.

Williams Settlement Agreement and the New Construction Plan

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 provides 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. The legislative proposals include (i) a program to make available up to $800 million over a period of years for repairs of emergency facilities conditions in the lowest performing schools (those ranked in the bottom 3 deciles under the statewide API); (ii) $138 million for new instructional materials for students attending schools in the bottom two API deciles, in addition to the funding for instructional materials to all schools; and (iii) additional funding to conduct an assessment of facilities conditions, supplement the County Superintendents' capacity to oversee low performing schools, fund emergency repairs in those schools and cover other costs of implementation.

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) AB 1550 which sets to phase out the use of the multi-track, year-round school calendar, known as Concept 6, with a shortened school year by July 1, 2012; (iii) AB 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) SB 6 which provides up to $800 million beginning in the 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 $49 million for emergency facility repair projects in Fiscal Year 2004-05. Applications for Fiscal Year 2005-06 are under review by the State.

Pursuant to the terms of the settlement agreement and in accordance with the *Williams* legislation, the District is committed to eliminate the use of the multi-track, year-round school calendar with a shortened school year by July 1, 2012. 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 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 January 2006, the program's cost is $11.7 billion and the program is expected to provide facilities for approximately 160,000 new two-semester seats by the end of the year 2012. State and local bond measures and other funding sources provide revenues for this program.

STATE FUNDING OF EDUCATION

General

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 is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the legislature to the school 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 District revenue limit to determine the amount of State revenue limit funding as described below.

School districts in the State have historically received most of their revenues under a formula known as the "revenue limit." Each 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 district will amount to the difference between the school district's revenue limit and the 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 California 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 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 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 California school districts 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 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. 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-3 sets forth the District's revenue limit per unit of ADA from Fiscal Year 1995-96 through Fiscal Year 2004-05 and the projected revenue limit per unit of ADA for Fiscal Year 2005-06.

TABLE A-3

Los Angeles Unified School District
Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 1995-96 to 2004-05
and Projected 2005-06

Fiscal Year Ended June 30	K-12 Base Limit(1)	Adult Total Limit
1996	$3,613.58	$1,824.00
1997	3,760.73	1,887.35
1998	3,910.18	1,942.66
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(2)	5,132.58	2,389.22

(1) The K-12 Base Limit figures represent the funded revenue limits.
(2) Projected.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005 for Fiscal Years 1995-96 through 2004-05. Los Angeles Unified School District 2005-06 Final Budget for Fiscal Year 2005-06.

From Fiscal Years 1993-94 through 1999-2000 and again in 2003-04 and 2004-05, 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-4 below. Current State law provides that the deficit factor for Fiscal Years 2005-06 and 2006-07 will be 0.892.

TABLE A-4

Los Angeles Unified School District
Deficit Factor
Fiscal Years 1993-94 to 2006-07

Fiscal Year Ended June 30	Deficit Factor
1994	8.140%
1995	11.010
1996	10.120
1997	8.800
1998	8.800
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	0.892

Source: Los Angeles Unified School District.

The following Table A-5 sets forth the cost-of-living adjustments ("COLA") from Fiscal Year 1993-94 through Fiscal Year 2006-07 as reflected in the Governor's Budgets for those respective years.

TABLE A-5

Los Angeles Unified School District
Cost-of-Living Adjustment
Fiscal Years 1993-94 to 2006-07

Fiscal Year Ended June 30	Cost of Living Adjustment
1994	1.92%
1995	3.23
1996	2.73
1997	3.22
1998	2.65
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	5.18

Source: State Budgets for Fiscal Year 1993-94 through Fiscal Year 2005-06 and the 2006-07 Governor's Budget for Fiscal Year 2006-07.

The District's ADA record for each of the Fiscal Years 1996-97 through 2005-06 is set forth in Table A-6 below:

TABLE A-6

Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 1996-97 to 2005-06

	Average Daily Attendance[1]		
Fiscal Year Ended June 30	K-12	Dependent Charter Schools[2]	Total[3]
1997	640,928	–	717,911
1998	654,783	–	731,206
1999	641,074	–	719,105
2000	654,664	–	732,409
2001	642,713	19,952	740,293
2002	656,306	20,010	762,688
2003	661,615	17,681	766,137
2004	666,169	5,143[4]	758,605
2005	654,308	5,990	746,605
2006[5]	643,635	6,152	738,249

(1) Beginning in Fiscal Year 1998-99, and pursuant to SB 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) Includes students in Adult Education Program.
(4) Decrease attributable to dependent charter schools converting to regular District schools or to independent charter schools.
(5) Estimated for Fiscal Year 2005-06.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1995-96 through 2004-05. Los Angeles Unified School District 2005-06 Final Budget for Fiscal Year 2005-06.

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 adopted by the State Legislature 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 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 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 and 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 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 receive their funding directly from the State, are not included in the District's audit report, and function like an independent agency, including having control over their staffing and budget.

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 education 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 charter schools within a school district, or of charter school students in a school district who had previously been charter school students at a traditional school in that same school district, results in a reduction of the revenue limit and categorical program funding for that school district.

The District has experienced increased enrollment in independent charter schools as enrollment in regular District schools has declined. The District expects that this trend will continue. It is not possible, however, to predict exactly how many new independent charter schools will be established within the jurisdictional boundaries of the District or whether existing independent charter schools will expand the number of grades they offer, the number of classes per grade or the number of enrolled students during that time.

The following Table A-7 sets forth the historical enrollment information for independent charter schools for Fiscal Years 2001-02 through 2004-05 and projected enrollment information for Fiscal Years 2005-06 through 2007-08. For additional information regarding historical enrollment information for the District (excluding enrollment for independent charter schools), see "DISTRICT GENERAL INFORMATION – Enrollment."

TABLE A-7

Los Angeles Unified School District
Independent Charter Schools[(1)]
Historical and Projected Enrollment
Fiscal Years 2001-02 through 2007-08

	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Estimated[(2)]	2006-07 Estimated[(2)]	2007-08 Estimated[(2)]
Graded Enrollment							
K-5 enrollment	4,908	6,731	9,093	10,418	11,973	13,820	15,556
6-8 enrollment	1,128	2,128	2,853	4,011	5,169	6,569	7,589
9-12 enrollment	0	171	7,230	9,195	10,688	14,993	19,879
Total Graded Enrollment	6,036	9,030	19,176	23,624	27,830	35,382	43,024
Ungraded Enrollment	18	62	301	228	--[(3)]	--[(3)]	--[(3)]
Total Graded and Ungraded enrollment	6,054	9,092	19,477	23,852	27,830	35,382	43,024

(1) Includes schools that have converted from non-charter schools to fiscally independent charter schools.
(2) The District uses data on live births in Los Angeles County and historical grade retention ratios, as well as economic factors and other relevant factors to project enrollment.
(3) Not estimated.

Source: Los Angeles Unified School District 2005-06 Final Budget.

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 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 Fiscal Year 2004-05 State Budget suspended the Proposition 98 minimum guarantee for Fiscal Year 2004-05. 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, a State 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 2/3 vote of each house of the Legislature by no later than June 15, although this deadline has been frequently missed. The budget becomes law upon the signature of the Governor.

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 Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the 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 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 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.

State 2005-06 Budget. On July 11, 2005, Governor Schwarzenegger signed into law the $117.3 billion Fiscal Year 2005-06 Budget Act (the "Fiscal Year 2005-06 State Budget"). The Fiscal Year 2005-06 State Budget addressed a State deficit of $9.1 billion through spending cuts, without increasing taxes or additional borrowing. California's economy continues to improve with industry employment reaching a record high in May 2005, the unemployment rate falling to 5.3 percent in the same month, and inflation-adjusted Gross State Product up by 5.1 percent in 2004. California personal income was 7.1 percent higher in the first quarter of 2005 than a year earlier and statewide taxable sales were 7 percent higher in the fourth quarter of 2004 than the same period in 2003. While the Fiscal Year 2005-06 State Budget marks substantial and continuing progress toward structural balance, budget analysts warn that State expenses are projected to continue growing much faster than revenues, leaving the State with an estimated shortfall of $7.5 billion in Fiscal Year 2006-07.

The Fiscal Year 2005-06 State Budget assumes Fiscal Year 2005-06 total General Fund revenues and transfers of $91.97 billion, total expenditures of $90.03 billion and a year-end reserve of $1.94 billion. Approximately $641 million of the reserve is designated as a reserve for the liquidation of encumbrances and the remaining $1.3 billion is designated as a special fund for economic uncertainties (which includes $900 million set aside for refunds and accelerations of amnesty related revenue in 2006-07).

The 2005-06 Fiscal Year State Budget improves roads and bridges throughout California by fully funding Proposition 42 and provides a year-over-year increase of more than $3 billion for K-14 education for a total of nearly $50 billion. Per-pupil spending from all sources will exceed $10,000 for the first time, and as a result of the Governor's agreement with Legislators, the Fiscal Year 2005-06 State Budget fully repays local governments $1.2 billion owed to them one year earlier than required under State law.

With regard to K-12 school districts, total per-pupil spending in Fiscal Year 2005-06 will exceed $10,000 for the first time, at $10,325. The Fiscal Year 2005-06 State Budget fully funds COLA and student growth for K-14 education, restores approximately half of the general purpose revenue limit funding reductions reflected in prior budgets and provides over $70 million for the repayment of prior year mandated costs for school districts and community colleges. According to the 2005-06 State Budget, the Proposition 98 settle-up obligation should be measured at $584 million for 2003-04 and $3.8 billion in 2004-05, which will be restored to the Proposition 98 budget in future years as General Fund revenue growth exceeds personal income growth. The 2005-06 State Budget also includes $16.8 million in payments towards prior year Proposition 98 obligations dating back to 1995-96, which will be supplemented beginning in 2006-07 by annual payments of $150 million per year until the estimated $1.3 billion in such obligations are fully repaid.

TABLE A-8

Proposition 98 Funding
(in thousands)

	2003-04	2004-05	2005-06
General Fund	$30,529,463	$34,009,289	$36,590,833
Local Revenue	15,762,333	12,932,043	13,376,787
Total Funded Guarantee	$46,291,796	$46,941,332	$49,967,620
Base Guarantee Level	$46,875,655	$50,768,633	$49,226,734
Savings[1]	583,859	3,827,301	(740,886)

[1] The amount of funds budgeted for Proposition 98 below (or above) the minimum funding requirement of Proposition 98.

The General Fund contribution to the Proposition 98 guarantee increases by $2.6 billion from Fiscal Year 2004-05 to Fiscal Year 2005-06, while the local property tax revenue contribution increases by $445 million. This large General Fund share of the guarantee's increase reflects the second year of the agreement with California's local governments to reduce Vehicle License Fee revenues, replace those revenues with additional property tax allocations and hold schools harmless by providing additional General Fund moneys and reallocating local property taxes.

Major provisions of the Fiscal Year 2005-06 State Budget relating to K-12 education funding include the following:

- **K-12 Proposition 98 Per Pupil Funding** – Estimated Proposition 98 funding per pupil rises to $7,402 in Fiscal Year 2005-06, representing an increase of $379 per pupil from the revised Fiscal Year 2004-05 level. Compared to the Fiscal Year 2004-05 State Budget level of $7,007 per pupil, 2005-06 per pupil expenditures have increased $395. Total General Fund allocations of $33.1 billion for K-12 education now represent 40.2 percent of the General Fund budget subject to the State appropriations limit.

- **Total K-12 Funding** – An increase of $2.7 billion over funding levels for Fiscal Year 2004-05 increases total funding from all sources to $62.3 billion. Total funding per pupil increases by $380, from $9,945 in Fiscal Year 2004-05 to $10,325 in Fiscal Year 2005-06. This represents a 3.8 percent increase over the adjusted estimate for Fiscal Year 2004-05.

- **Enrollment Growth** – The Fiscal Year 2005-06 State Budget provides $193.6 million to fund enrollment growth increases for school apportionments ($53.3 million), Special Education ($20.3 million) and other categorical programs ($120 million). This amount includes $4.4 million deferred to Fiscal Year 2006-07.

- **Cost of Living Adjustments** – The Fiscal Year 2005-06 State Budget included over $1.7 billion to provide a 4.23 percent COLA increase to K-12 programs. Included in this amount are funding for school apportionments ($1.3 billion), Special Education ($125 million) and other categorical programs ($295 million). Of this amount, $15.7 million is deferred to Fiscal Year 2006-07. The 4.23 percent calculation substantially exceeds the expected growth of the consumer price index in California.

- **Revenue Limits** – Revenue limit funding constitutes the basic funding source for classroom instruction. The Fiscal Year 2005-06 State Budget provides a net increase of $1.6 billion to school district and county office of education revenue limits, which includes funding for enrollment growth, a cost-of-living adjustment and the repayment of $328 million or approximately half of the outstanding deficit factor owed as a result of reductions made by the prior administration.

- **K-12 Education Mandates** – The Fiscal Year 2005-06 State Budget provides $60.6 million ($53.8 million from the Proposition 98 Reversion Account and $6.8 million in Proposition 98 settle-up funds) to pay prior fiscal year K-12 education mandate claims. These one-time funds are intended to pay for claims on the basis of oldest first.

- **Accountability** – The Fiscal Year 2005-06 State Budget provides $348.4 million for programs to assist and promote academic performance including $228.7 million Proposition 98 General Fund to assist low-performing schools through the High Priority Schools Grant Program, $53 million to assist schools subject to sanctions pursuant to State and federal accountability programs, $30 million for federal Comprehensive School Reform Program grants, $29.2 million in federal Title I School improvement funds to fund district accountability activities and $7.5 million in Proposition 98 General Fund deferred funding from Fiscal Year 2004-05 for the final year of implementation for schools participating in the Immediate Intervention/Underperforming Schools Program.

- ***Williams* Litigation** – The Fiscal Year 2005-06 State Budget provides $183.5 million from the Proposition 98 Reversion Account for school facility emergency repairs, consistent with the *Williams* settlement agreement.

- **Pupil Testing** – The Fiscal Year 2005-06 State Budget provides $118.9 million, including federal funds, for various statewide exams. The budget also provides $650,000 for the development of an alternative assessment for moderately disabled students who presently do not test at grade level, pursuant to federal guidelines.

- **Commission on Teacher Credentialing** – The Fiscal Year 2005-06 State Budget contains $51 million ($34.5 million General Fund and $16.1 million other funds) and 161.5 positions for the Commission on Teacher Credentialing in 2005-06. This represents a reduction of $9.6 million and 4.9 positions from the Fiscal Year 2004-05 State Budget.

- **Low Performing School Enrichment Block Grant** – The Fiscal Year 2005-06 State Budget includes $49.5 million for the Low-Performing School Enrichment Block Grant, a one-time block grant for low-performing schools. These funds will be available to schools in the bottom three deciles of the Academic Performance Index.

- **Supplemental Instruction High School Exit Exam Program** – The Fiscal Year 2005-06 State Budget provides on a one-time basis $47.9 million Special Education Program funding and $20 million under the Pupil Retention Block Grant to provide additional supplemental instruction to pupils who have failed one or both parts of the High School Exit Exam.

LAO Analysis of the Fiscal Year 2005-06 State Budget. In its July 26, 2005 report entitled "Major Features of the 2005 California Budget," the California Legislative Analyst's Office ("LAO") stated that the Fiscal Year 2005-06 State Budget reflects an improving State fiscal picture brought about by better-than-expected growth in State General Fund revenues. The LAO noted that the new spending plan funds the Proposition 42 transfer to transportation and includes significant increases in both K-12 and higher education. The LAO observed that the Fiscal Year 2005-06 State Budget does not use any of the remaining $3.7 billion in deficit-financing bonds authorized by Proposition 57 in March 2004, and it prepays a $1.2 billion loan due to local governments in Fiscal Year 2006-07.

The LAO report pointed out that the spending plan includes roughly $6 billion in savings and related budget solutions in order to maintain budgetary balance, with approximately one-half of the solutions resulting from holding Fiscal Year 2004-05 Proposition 98 funding at the level anticipated in the Fiscal Year 2004-05 budget package. The LAO report notes that the savings included in the Fiscal Year 2005-06 State budget will address part of the State's ongoing structural budget shortfalls, but it anticipates that, even if all of the savings in the plan are fully achieved, current-law expenditures will exceed projected revenues by approximately $6.1 billion in Fiscal Year 2006-07.

2006-07 Proposed Governor's Budget. On January 10, 2006, Governor Schwarzenegger released the proposed Fiscal Year 2006-07 Governor's Budget (the "2006-07 Governor's Budget"). The 2006-07 Governor's Budget projects Fiscal Year 2006-07 General Fund revenues and transfers of $92.5 billion, total expenditures of $97.8 billion and a year-end reserve of $613 million. 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 $7 billion. The year-end reserve of $613 million for Fiscal Year 2006-07 is comprised of $521 million as a reserve for the liquidation of encumbrances and $153 million as a special fund for economic uncertainties. In addition, $920 million is expected to be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58, of which $460 million will be allocated to a subaccount that is dedicated to the repayment of deficit-recovery bonds authorized by Proposition 57.

The 2006-07 Governor's Budget includes $66.2 billion total revenue funding for K-12 education, an increase of approximately $4.1 billion above the amount included in the Fiscal Year 2005-06 State Budget. Total per-pupil expenditures from all sources are projected to be $10,336 in Fiscal Year 2005-06 and $10,996 in Fiscal Year 2006-07, respectively, including funds provided for prior year settle-up obligations.

The 2006-07 Governor's Budget includes total Proposition 98 funding for Fiscal Year 2006-07 of $54.3 billion, an 8.7 percent increase above the revised estimate for Fiscal Year 2005-06. This amount includes $1.7 billion in Proposition 98 spending above the amount that otherwise would have been required by the Proposition 98 guarantee for Fiscal Year 2006-07. The State General Fund contributes approximately 74 percent, or $40.5 billion, of total proposed Proposition 98 funding. These totals include funding for K-12 and community college districts.

The 2006–07 Governor's Budget contains the following major components relating to K-12 education funding:

- **Equalization** - The 2006-07 Governor's Budget includes $200 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.

- **Deficit Reduction** - The 2006-07 Governor's Budget includes $205 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.

- **Cost of Living Adjustments** - The 2006-07 Governor's Budget includes a $2.3 billion augmentation to provide a 5.18 percent statutory COLA adjustment ($1.7 billion for revenue limits, $70.2 million for child care and development, $78.4 million for class size reduction, $161.6 million for special education, and $313.6 million for various categorical programs).

- **Funding For Average Daily Attendance Growth** - The 2006-07 Governor's Budget includes a $156 million augmentation to fully fund statutory ADA growth: $67.4 million for revenue limit apportionments (general purpose funding for schools), $14.8 million for child care and development, $4.7 million for class size reduction, $6.5 million for special education and $62.6 million for other categorical programs.

- **School Enrichment Block Grant** - The 2006-07 Governor's Budget includes $100 million for the School Enrichment Block Grant program to support local strategies to recruit and retain teachers and principals. These funds will be made available to school districts, based on the number of pupils in the schools whose API has placed them in the bottom three API deciles. Funds will be allocated at a rate of approximately $50 per pupil with a district minimum of $5,000 per school site.

- **Beginning Teacher Support and Assessment System (BTSA)** - The 2006-07 Governor's Budget includes $65 million to support a required third year of induction for beginning teachers in API deciles 1-3 schools and, at district discretion, a voluntary year for experienced teachers who are new to API deciles 1-3 schools. BTSA provides professional development, counseling and mentoring for first-year and second-year teachers entering into the profession.

- **After-School Programs** - The 2006-07 Governor's 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.

- **Accountability Programs** - The 2006-07 Governor's Budget includes $400.4 million in Proposition 98 General Fund and federal funds for school accountability programs.

- **Mandated Local Programs** - The 2006-07 Governor's Budget includes $133.6 million to fund the ongoing cost of K-12 and community college district locally mandated programs.

- **Special Education** - The 2006-07 Governor's Budget includes an additional $156.3 million General Fund for special education programs. A local property tax increase of $17.4 million and an increase of $16 million in federal funds also are reflected in the Budget. These increases include $161.6 million for a 5.18 percent COLA and $6.5 million for growth.

- **Charter School Categorical Block Grant** - The 2006-07 Governor's Budget includes approximately $36 million for the Charter School Categorical Block Grant. This amount would be an increase of more than $100 in the current base Block Grant per-pupil amount.

- **Reversion Account** - The 2006-07 Governor's Budget includes a one-time Proposition 98 Reversion Account funding of $213.2 million ($106.6 million for school facility emergency repairs, consistent with the Williams agreement, $63.7 million for CalWORKs Stage 3 Child Care, and $43.3 million for other priorities).

- **Art and Music Grants** - The 2006-07 Governor's Budget includes $100 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 a rate of $20 per pupil, with a minimum of $3,000 for school sites with ten or fewer students, and a minimum of $5,000 per site with more than ten students.

- **Physical Education Grants** - The 2006-07 Governor's Budget includes $85 million to provide resources to support physical education instruction, improve student health and to expand curricular opportunities for students. $60 million of this amount is proposed to fund the Physical Education Grant Program, which supports standards-aligned physical education instruction in elementary and middle schools. The remaining $25 million is proposed for incentive grants to school districts to hire more credentialed physical education teachers in elementary and middle schools.

LAO Analysis of the Fiscal Year 2006-07 Governor's Budget. On January 15, 2006, the LAO released a report entitled "Overview of the Governor's Budget" (the "LAO Budget Overview"), which provides an analysis by the LAO of the 2006-07 Governor's Budget. The LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

In the LAO Budget Overview, the LAO stated that the positive revenue assumptions included in the 2006-07 Governor's Budget were reasonable in light of recent positive cash revenue trends but noted that the 2006-07 Governor's Budget should focus more on paying down existing debt before making expansive new commitments given the State's current structural budgetary shortfall. Over $4 billion in increased spending is proposed in the 2006-07 Governor's Budget, including over $2 billion for new or expanded programs and $920 million for the prepayment of a loan due to transportation in Fiscal Year 2007-08. The LAO stated that, even assuming the higher revenue trend underlying the 2006-07 Governor's Budget, the added ongoing spending would result in larger out-year fiscal imbalances. The LAO estimates that the implementation of the proposed budget would leave the State with an annual operating shortfall of over $5 billion in Fiscal Year 2007-08.

Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Analysis of the budget may be found at the website of the Office of the Legislative Analyst 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 the State's future budget deficits. Future State budgets will be affected by national and State economic condition 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 Budget is required to be adopted by June 15 of the prior fiscal year, 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 Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California 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 revenue limit funding do constitute continuing appropriations enacted by the 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 Legislature and, therefore, cannot be paid during a budget impasse.

The California 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 California 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 school districts to maintain a balanced budget in each Fiscal Year. 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 tentative budget by June 30 in each Fiscal Year and an adopted budget by September 8 of each Fiscal Year. After approval of the adopted budget, the school district's administration may submit budget revisions for governing board approval.

School districts in California 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 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 County Office of Education. The balanced budget requirement makes appropriations reductions necessary to offset any revenue shortfalls.

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

Fiscal Year 2004-05 Budget. On August 31, 2004, the District's Board adopted a balanced budget for the Fiscal Year 2004-05. The District's 2004-05 budget reflected reductions and redirections of nearly $500 million to balance the General Fund. During the period from Fiscal Year 2002-03 through Fiscal Year 2004-05, the Board had approved budget-balancing actions totaling $1.2 billion.

The District's 2004-05 budget reflected the apparent recovery of the State economy, including a fully funded 2.41% COLA, as well as funding for revenue limit equalization and a reduction of the revenue limit deficit factor from 3% in 2003-04 to 2.143% in 2004-05. Each of these factors resulted in increased revenue to the District, particularly important in light of the sizable General Fund reductions and redirections of the past several years.

On June 22, 2004, the Board adopted a Budget and Finance Policy intended to assist the Board in making sound decisions, guide the development of the District's budget, enhance the management of the District's finances, minimize the risk of budget shortfalls that could trigger LACOE intervention, and reduce potential audit concerns. The adopted Budget and Finance Policy creates enhanced standards for budget preparation and administration, including a requirement that reserves be established covering such elements as anticipated balances, emergency needs, and long-term liabilities in the areas of workers' compensation and health and medical benefits. The Budget and Finance Policy became effective on July 1, 2005 and provides a consistent framework for developing the District's budget for each fiscal year. See "District Fiscal Policies—Budget and Finance Policy" below.

Fiscal Year 2005-06 Budget. The District faced certain challenges in developing its Fiscal Year 2005-06 budget. During the budget development in the spring of Fiscal Year 2004-05, the District adopted a qualified certification with respect to meeting its obligations in Fiscal Year 2005-06. See "—Significant Accounting Policies, System of Accounts and Audited Financial Statements – *State Financial Accountability and Oversight Provisions*." Subsequently, the District successfully closed the budget discrepancy previously anticipated and has been assigned a positive certification with respect to meeting its obligations in Fiscal Year 2005-06 and the subsequent two fiscal years.

The District's 2005-06 Final Budget, which was adopted on August 30, 2005, totals $13.2 billion, which includes all funds, including bond proceeds, the District's General Fund and Health and Welfare Benefits Fund. Of this amount, the General Fund, Regular Program, which reflects funding for the District's basic instructional programs, totals $5.71 billion. The District anticipates that $5.32 billion of this amount will be expended in Fiscal Year 2005-06, with $390 million projected to carry forward into Fiscal Year 2006-07. General Fund categorical programs add another $1.372 billion in projected Fiscal Year 2005-06 revenues and expenditures.

The Fiscal Year 2005-06 State Budget provides 4.23% COLA, which results in an increase in District revenue limit income of approximately $145.5 million. It also decreased the base revenue limit deficit factor from 2.143% in Fiscal Year 2004-05 to 0.892% in Fiscal Year 2005-06, increasing the percentage of the revenue limit entitlement that the District will receive.

Much of the new K-12 education funding in the Fiscal Year 2005-06 State Budget was provided in the form of categorical funding for such diverse purposes as expansion of the class-size reduction effort, supplemental instruction for students at risk of failing the high school exit exam, career technical education for grades 7-8, expanding support for beginning teachers, and healthier school breakfasts. The District's Final Budget, which is based on the adopted Fiscal Year 2005-06 State Budget, reflects the categorical programs incorporated in the State budget and includes both revenue and expenditure projections for these programs.

The District's total K-12 enrollment is expected to decrease by 14,943 from the Fiscal Year 2004-05 school year, reflecting an anticipated reduction of 20,258 in K-12 regular schools, partially offset by an increase of 5,285 in charter school enrollment. The Education Code's declining enrollment statutes enable the District to claim Fiscal Year 2005-06 revenue limit funding on the basis of the ADA for Fiscal Year 2004-05.

The General Fund adopted budget includes approximately $100 million in expenditures to cover the cost of a 2.5% salary increase for nearly all employees, reflecting the tentative agreement between the District and United Teachers of Los Angeles (the "UTLA") entered into on November 22, 2005. The tentative agreement also included a 1% increase in employee health benefits. See "DISTRICT FINANCIAL INFORMATION—Collective Bargaining."

Two areas of expenditure that have risen significantly in recent years are workers' compensation costs and employee and retiree health benefits. Total workers' compensation expenditures were $96.2 million in Fiscal Year 1999-2000 and are expected to increase to $185.1 million (including adjustments for future claims) in Fiscal Year 2005-06. The District is currently examining methods to contain the growth in workers' compensation claims.

Employee and retiree health care costs have also been increasing sharply, with a projected increase of $44.2 million in Fiscal Year 2005-06, based on total expenditures in the Health and Welfare Benefits fund projected to be $723.6 million in Fiscal Year 2005-06 and estimated at $678.9 million for Fiscal Year 2004-05. In comparison, these amounts were $644.7 million in Fiscal Year 2003-04 and

$574.1 million in Fiscal Year 2002-03. A cap on the premiums for employee and retiree health insurance is negotiated annually with the bargaining units. Such capped premiums have been paid by the District in the past. However, due to the rapid increase in these health insurance costs and the District's relatively static revenue base, the District may not be able to continue to subsidize these costs for employees and retirees in the future. See "– Other Post-Employment Benefits."

For Fiscal Year 2005-06, the State has mandated that school districts budget the Reserve for Economic Uncertainties at the full statutory level, which equals 1% of total General Fund budgeted expenditures for the District. The District's 2005-06 Final Budget fully restores the Reserve for Economic Uncertainties to the 1% mandated level. The Final Budget also reflects a return to the full 3% funding level for routine building repair and maintenance, increased from the 2% level authorized for Fiscal Year 2003-04 and Fiscal Year 2004-05.

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. In view of the State's funding insufficiency, the District's Chief Financial Officer is recommending that with the exception 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 District's Adopted Budgets for the General Fund for Fiscal Years 2002-03 through Fiscal Year 2005-06 are set forth in Table A-9 below.

TABLE A-9

Los Angeles Unified School District
Adopted General Fund Budgets for Fiscal Years 2002-03 through 2005-06
($ in millions)

	Adopted Budget 2002-03	Adopted Budget 2003-04	Adopted Budget 2004-05[2]	Adopted Budget 2005-06[2]
Beginning Balance[1]	$ 584.1	$ 579.0	$ 324.0	$ 349.6
Revenue:				
State Apportionment	$2,333.7	$2,239.3	$2,243.5	$ 2,883.9[3]
Property Taxes	985.8	1,057.7	1,195.9	668.0[3]
Total Revenue Limit Revenues	$3,319.5	$3,297.0	$3,439.5	$3,551.9
Federal	$ 836.6	$1,062.5	$1,054.6	$1,016.6
Other State	1,988.4	2,016.8	1,968.5	1,986.7
Other Local	108.1	92.5	91.3	93.1
Other Sources	234.4	12.0	97.1	86.8
Total Revenue	$6,487.0	$6,480.8	$6,651.0	$6,735.0
Total Beginning Balance and Revenue	$7,071.2	$7,059.8	$6,975.0	$7,084.6
Expenditures:				
Certificated Salaries	$2,908.0	$3,026.7	$2,871.8	$3,008.5
Classified Salaries	915.8	944.3	913.2	883.4
Employee Benefits	1,061.0	1,212.4	1,296.8	1,328.5
Books and Supplies	830.2	566.5	399.8	404.9
Other Operating Expenses	723.3	656.6	643.2	610.5
Capital Outlay	127.2	66.4	59.6	52.8
Other Outgo/Other Uses	492.8	508.8	466.4	437.4
Total Expenditures	$7,058.4	$6,981.7	$6,650.9	$6,726.0
Ending Balance[2]	$ 12.8	$ 78.1	$ 324.1	$ 358.6

(1) Actual beginning balance for each Fiscal Year, except for Fiscal Year 2005-06 which is unaudited actuals.
(2) Reflects a change in the District's budgeting methodology pursuant to which the budget projects a Reserve for Anticipated Balances as reflected in the Ending Balance.
(3) 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 Year 2005-06.

Source: Los Angeles Unified School District Final Budget for Fiscal Years 2002-03 through 2005-06.

First Period Interim Financial Report for Fiscal Year 2005-06. The District's Board approved the First Period Interim Financial Report (the "First Interim Report") for Fiscal Year 2005-06 on December 13, 2005. The First Interim Report projects that the ending balance for Fiscal Year 2005-06 will be approximately $337.1 million and provides that the ending balance reserve level exceeds the minimum statutory requirement.

The following Table A-10 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 First Interim Financial Report for Fiscal Year 2005-06.

TABLE A-10

Los Angeles Unified School District
Fiscal Year 2005-06
General Fund
Summary of Balances, Revenues and Expenditures
($ in millions)[(1)]

	Original Budget	Modified Budget	First Interim (December 13, 2005)
Beginning Balance	$ 349.6	$ 349.6	$ 349.6
Revenues/Other Sources	6,735.0	6,735.0	6,463.1
Expenditures/Other Uses	6,726.0	6,728.0	6,475.6
Operating Surplus (Deficit)	$ 9.0	$ 6.6	$ (12.5)[(2)]
Ending Balance	$ 358.6	$ 356.2	$ 337.1

(1) Totals may not add due to rounding.

(2) The shift from an Operating Surplus in the Modified Budget to an Operating Deficit in the First Interim Report is due to historically conservative projections made in the District's First Interim Reports. The largest component of the difference from the Modified Budget is the reduction of State and federal grant funds. The First Interim Report provides that all grant funds are assumed to be received and spent over a period of years. However, the Modified Budget assumed that all grant funds would be received and spent in Fiscal Year 2005-06.

Source: Controller, Los Angeles Unified School District.

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 auditors to the District and excerpts of its report for Fiscal Year ended June 30, 2005 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 was granted an extension to file and has subsequently filed its audit report for the Fiscal Year ended June 30, 2005. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005."

State Financial Accountability and Oversight Provisions. California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. California 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 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 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 district has a qualified or negative certification report in any year, the district may not issue non-voter approved debt instruments in that year or the next, unless the county office of education, using criteria from the state Superintendent of Public Instruction, determines repayment is probable. On March 15, 2005, the Board adopted the Second Interim Report for the Fiscal Year 2004-05. The Second Interim Report was adopted with a qualified certification due to the collective bargaining agreements with employee groups to increase salaries by 2%, retroactive to July 1, 2004. As a result, the Second Interim Report projected a General Fund deficit of $72.3 million in Fiscal Year 2005-06 and a General Fund deficit of $158.8 million in Fiscal Year 2006-07. Subsequently, the District's Board approved the First Interim Report for Fiscal Year 2005-06 on December 13, 2005 and the submission of a positive certification to LACOE.

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. 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, 2005."

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, 2005" for the District's Management's Discussion and Analysis for Fiscal Year 2004-05. 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, 2005—Note A, Part 5."

The following Table A-11 sets forth the District's General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2000 through June 30, 2005.

TABLE A-11

Los Angeles Unified School District
Statement of Revenues, Expenditures and General Fund Balances[1]
Fiscal Years Ending June 30, 2000 through June 30, 2005
($ in millions)

	Fiscal Year 1999-00	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05
Beginning Balance	$654.8	$606.5	$732.3	$582.3	$579.0	$324.0
Adjustment to Beginning Balance	0.2	119.8	—	—	—	—
Restated Beginning Balance:	$655.0	$726.3	$732.3	$582.3	$579.0	$324.0
Revenues:						
State Apportionment	$1,799.4	$2,086.9	$2,217.3	$2,230.1	$2,105.4	$2,592.9
Property Taxes	902.9	975.9	1,035.1	1,086.0	1,195.4	839.0
Total Revenue Limit Revenues	$2,702.3	$3,062.8	$3,252.4	$3,316.1	$3,300.8	$3,431.9
Federal	379.0	386.4	475.0	581.3	720.2	796.9
Other State	1,850.3	1,921.4	1,744.1	1,796.1	1,749.1	1,890.0
Other Local	104.5	105.8	73.3	106.0	78.0	85.7
Other Sources	34.6	205.3	230.7	285.0	27.9	257.5
Total Revenue	$5,070.7	$5,681.7	$5,775.5	$6,084.5	$5,876.0	$6,461.9
Total Beginning Balance and Revenues	$5,725.7	$6,408.0	$6,507.8	$6,666.8	$6,455.0	$6,779.8
Expenditures						
Certificated Salaries	$2,411.7	$2,744.5	$2,819.6	$2,899.9	$2,919.4	$2,977.2
Classified Salaries	737.5	824.6	865.0	876.2	880.4	870.9
Employee Benefits	708.1	849.7	971.8	1,097.2	1,196.5	1,228.2
Books and Supplies	276.8	332.6	363.9	372.6	352.1	368.7
Other Operating Expenses	457.2	494.8	498.4	547.6	575.4	555.1
Capital Outlay	105.6	148.2	48.4	53.7	44.3	53.8
Other Outgo/Other Uses[2]	422.3	281.3	358.4	240.6	162.8	382.4
Total Expenditures	$5,119.2	$5,675.7	$5,925.5	$6,087.8	$6,131.0	$6,436.3
Ending Balance	$ 606.5	$ 732.3	$ 582.3	$ 579.0	$ 324.0	$ 349.6

(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 1999-2000 through 2004-05.

Collective Bargaining

Collective bargaining agreements for Fiscal Year 2004-05 provide for a 2% salary increase for all certificated and most classified employees retroactive to the beginning of the Fiscal Year 2004-05. The combined cost to the General Fund of this salary increase for both groups of employees is estimated to total approximately $80 million. The District's budget for Fiscal Year 2005-06 reflects full funding of health benefits for District employees at the Fiscal Year 2004-05 service level.

On January 31, 2006, the Board approved a salary increase of 2.5% for UTLA, AALA and certain managerial staff, retroactive to July 1, 2005, and agreed to fund health benefits at current levels. The District's 2005-06 Final Budget included approximately $100 million in expenditures to cover the cost of a 2.5% salary for nearly all employees.

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 2004-05 was approximately $245.3 million. The District's regular employer contribution to STRS for Fiscal Year 2005-06 is projected to be at least equal to its contribution for Fiscal Year 2004-05. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law.

Set forth in Table A-12 below is the District's regular annual contributions to STRS for Fiscal Years 1990-00 through 2004-05 and the budgeted annual contribution for Fiscal Year 2005-06.

TABLE A-12

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 1999-00 through 2005-06
($ in millions)

Fiscal Year	District Contributions[1]
1999-00	$174.0
2000-01	198.5
2001-02	205.9
2002-03	237.0
2003-04	241.2
2004-05	245.3
2005-06[2]	205.1

(1) Includes payments to STRS for pension costs associated with the District's specially funded programs.
(2) Budgeted; subject to increase upon determination of the amount to be transferred for specially funded (categorical) programs.The District expects that the District's actual regular employer contribution to STRS for Fiscal Year 2005-06 will be at least equal to its contribution for Fiscal Year 2004-05, after adjusting for specially funded (categorical) programs.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001 for Fiscal Year 1999-2000 through Fiscal Year 2000-01; 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 2005-06 Final Budget for Fiscal Year 2005-06.

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-13 below) to CalPERS for Fiscal Year 2004-05 was approximately $136.2 million. The District's regular employer contribution to CalPERS for Fiscal Year 2005-06 is projected to be at least equal to its contribution for Fiscal Year 2004-05. 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 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 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-13 below is the District's regular annual contributions to CalPERS for Fiscal Years 1999-2000 through Fiscal Year 2004-05 and the budgeted annual contribution for Fiscal Year 2005-06.

TABLE A-13

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 1999-00 through 2005-06
($ in millions)

Fiscal Year	District Contributions[1][2]
1999-00	$ 68.4
2000-01	77.0
2001-02	100.9
2002-03	111.1
2003-04	134.3
2004-05	136.2
2005-06[3]	108.5

(1) Reflects payments to CalPERS for pension costs associated with the District's specially funded programs.
(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 district's PERS savings in that year. Such recapture has occurred in each Fiscal Year since 1982-83.
(3) Budgeted; subject to increase upon determination of the amount to be transferred for specially funded (categorical) programs. The District expects that the District's actual regular employer contribution to CalPERS for Fiscal Year 2005-06 will be at least equal to its contribution for Fiscal Year 2004-05, after adjusting for specially funded (categorical) programs.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 for Fiscal Year 1999-2000; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003 for Fiscal Year 2000-01; 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; and Los Angeles Unified School District 2005-06 Final Budget for Fiscal Year 2005-06.

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 unfunded actuarial accrued liability of CalPERS and STRS as of their most recent actuarial valuation is set forth in Table A-14 below.

TABLE A-14

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]	$(22.326) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)[2]	(24.160) billion

(1) As of June 30, 2003, using individual entry age normal cost method. 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. An actuarial valuation as of June 30, 2004 with respect to the State and school employees within CalPERS (but not including valuation of the entire CalPERS system) reported that as of June 30, 2004 the Unfunded Actuarial Accrued Liability for the State and schools, together, was $15.340 billion (compared to $14.727 billion as of June 30, 2003) and the Unfunded Actuarial Accrued Liability for schools alone was $2.626 billion (compared to $2.793 billion as of June 30, 2003).

(2) As of June 30, 2004, 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.

Source: CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2004 and CalPERS State and Schools Actuarial Valuation for Year ended June 30, 2004. STRS Defined Benefit Program Actuarial Valuation as June 30, 2004.

Set forth in Table A-15 below is the funded status of STRS and Public Employee's Retirement Fund (CalPERS) for Fiscal Years 1999-2000 through 2003-04.

TABLE A-15

Funded Status of STRS and CalPERS
Fiscal Years 1999-00 through 2003-04

Fiscal Year	STRS	CalPERS
1999-00	110.0%	119.5%
2000-01	98.0	111.9
2001-02	N/A[1]	95.2
2002-03	82.0	87.7
2003-04	83.0	N/A[2]

(1) Actuarial valuations not prepared or estimated.

(2) Total actuarial valuations not prepared or estimated, however, an actuarial valuation as of June 30, 2004 with respect to the State and school employees within CalPERS (but not including valuation of the entire CalPERS system) reported that as of June 30, 2004 the funded status of State and schools, together, was 86.7% and the funded status of schools alone was 92.7%.

Source: CalSTRS Defined Benefit Program Actuarial Valuation as of June 30, 2000, 2001, 2002, 2003 and 2004. CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2004 and CalPERS State and Schools Actuarial Valuation for Year ended June 30, 2004.

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 2003-04 and Fiscal Year 2004-05 totaled approximately $7.1 million and $6.6 million, respectively. The District's contribution for Fiscal Year 2005-06 is budgeted at $5.1 million.

Set forth in Table A-16 below is the District's annual PARS contributions for Fiscal Years 2000-01 through 2004-05 and the budgeted annual contribution for Fiscal Year 2005-06.

TABLE A-16

Los Angeles Unified School District
Annual PARS Contributions
Fiscal Years 2000-01 through 2004-05
and Projected Fiscal Year 2005-06
($ in millions)

Fiscal Year	District Contributions[1]
2000-01	$8.2
2001-02	8.4
2002-03	7.4
2003-04	7.1
2004-05	6.6
2005-06[2]	5.1

(1) Reflects payments to PARS for pension costs associated with the District's specially funded programs.
(2) Budgeted.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 for Fiscal Year 2000-01; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for Fiscal Year 2001-02 through 2003-04; Los Angeles Unified School District Comprehensive Annual Financial Report the Fiscal Year Ended June 30, 2005 for Fiscal Year 2004-05; and Los Angeles Unified School District 2005-06 Final Budget for Fiscal Year 2005-06.

See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005 — Note H."

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, 2005, there are approximately 33,645 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, $174.1 million in Fiscal Year 2003-04 and $179.3 for Fiscal Year 2004-05. The District included $182.7 million for post-employment health care benefits for Fiscal Year 2005-06 in the District's 2005-06 Final Budget.

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 District has conducted an actuarial study to calculate the accumulated post-retirement benefit obligation with respect to post-retirement health and welfare benefits offered to its employees. Based on the latest actuarial study completed as of July 1, 2004, the actuarial accrued liability of the District's post-retirement health and welfare benefits program, which was unfunded, was approximately $4.9 billion. The significant assumptions used in the computation include a 6.5% discount rate and a healthcare cost trend of 7% in 2004, declining to 6% in 2014 and remaining at that level thereafter. For additional information regarding the District post-employment benefit obligations, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005 — Note H, Part 4."

In order to address its post-employment benefits obligations, the District has established a task force, consisting of District personnel from Finance, Employee Benefits, Employee Relations and senior management. In addition, the task force includes representatives from the District's audit firm, actuary firm and LACOE. The task force met on July 7, 2005 and its first priority was to identify all issues and options available to the District in addressing the appropriate accounting and funding requirements of its post-employment benefit cost obligations. The task force will, from time to time, meet to further discuss the District's post-employment benefit cost obligations and is expected to provide a report with recommendations to the Superintendent and the Board once such analysis is completed. In November 2005, the District commissioned a second actuarial study to be completed in Spring 2006 using currently available data. The District has been and is expected to continue to review the actuarial studies, in conjunction with the District's obligations under its plan, to determine what other post-employment benefit liability must be reported beginning in Fiscal Year 2007-08.

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 huge - 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 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 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, 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 and programs under a combination of self-insurance retentions and varying sublimits through the excess insurance policies of PEPIP. The District does not maintain a separate policy for each individual school site or other facility, but all such sites are covered. The current self-insured retention for fire loss damage for excess property coverage is \$500,000 per occurrence and the policy limit is \$750,000,000. 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 Fiscal Year 2004-05, one loss (experienced in January 2005) exceeded the District's self-insured retention due to an unusual series of heavy rain storms that caused damage to many District schools. In additon to the above excess property policies, the District purchases a separate Boiler and Machinery policy with \$100,000,000 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 \$35,000,000 in aggregate above a \$3,000,000 self-insured retention per occurrence for Fiscal Year 2004-05. 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 and 2004-05 totaled approximately \$97.1 million, \$109.7 million, \$123.7 million, and \$105.5 million respectively. Such claims are estimated to be approximately \$103.8 million for Fiscal Year 2005-06, excluding adjustments for future claims. 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 \$50,000,000 for each incident with an aggregate of \$100,000,000 (coverage period of August 11, 1999 through August 11, 2019) and a Contractor's Pollution Legal Liability insurance policy with \$50,000,000 of coverage provided per covered site (and \$50,000,000 of coverage in aggregate losses through 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 OCIP program, workers' compensation coverage with statutory limits, and primary and excess liability coverage with limits of \$102 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 \$30 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, 2005 — Note I."

District Fiscal Policies

Debt Management Policy. In October 2003, the District's Board adopted a Debt Management Policy that established formal guidelines for the issuance of various types of debt instruments and other financial obligations. This Debt Management Policy was revised by the District's Board in April 2005. The Debt Management Policy sets forth an annual gross debt service cap of $105 million attributable to certificates of participation ("COPs") and establishes a target of 2.0% and a ceiling of 2.5% for the ratio of gross COPs debt service divided by General Fund appropriations.

The Debt Management Policy also establishes targets and ceilings for debt ratios that include both COP obligations and the District's general obligation bond debt service. The District is currently below the various debt ratios and COPs debt service limits established by the Debt Management Policy, as indicated in the following Table A-17.

TABLE A-17

Los Angeles Unified School District
Debt Management Policy
(as of June 30, 2004)

Ratio	Actual	Target[1]	Ceiling[1]
Direct Debt to Assessed Value	1.58%	90% of Moody's Median (2.25%)	Moody's Median (2.5%)
Overall Debt to Assessed Value	3.36%	90% of Moody's Median (4.23%)	Moody's Median (4.7%)
Direct Debt Per Capita	$1,034	90% of S&P Maximum for AA Issuer ($1,521)	S&P Maximum for AA Issuer ($1,690)
COPs Debt Service Limit (gross)	1.66%	2.0% of General Fund Appropriations	2.5% of General Fund Appropriations
COPs Gross Debt Service Cap[2]	$100.2 million	$105 million	

(1) "General Fund Appropriations" includes said amounts based upon the District's Fiscal Year 2004-05 Final Budget.
(2) May increase with each approved issuance of certificates of participation.

Source: Los Angeles Unified School District.

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 requires the Chief Financial Officer to provide annual reports which review the outstanding debt of the District to the Superintendent and the Board. The District expects that the first such annual report will be available in March 2006.

The April 2005 revision of the District's Debt Management Policy: (i) included a provision to evaluate the five-year capital funding plan to ensure that funding sources are in accordance with the goals of the Debt Management Policy; (ii) included a provision in the lease financing options to take out the financing using general obligation bond proceeds, when possible; (iii) eliminated the ability to provide loan guarantees; (iv) revised the general obligation bond section to include private sales; and (v) revised the limit of unhedged variable rate debt to 20% of outstanding certificates of participation and general obligation bonds.

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 2004-05, the District funded this reserve at the then-legally mandated minimum of 0.5%, or approximately $33.0 million. In Fiscal Year 2005-06, this reserve will be funded at the current legally mandated minimum of 1.0%, or approximately $66.0 million. The other reserves will be funded and phased in annually based on the Board's actions.

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 $9.1 billion. The District's unused bonding capacity is approximately $3.8 billion prior to the issuance of the Bonds. The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued $2.4 billion in general obligation bonds pursuant to an 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 issued the first series of Measure K general obligation bonds in March 2003 in the aggregate principal amount of $2.1 billion. A $3.87 billion general obligation bond authorization was approved by the voters on March 2, 2004 ("Measure R"). The District has issued $600,000,000 aggregate principal amount of Measure R bonds and the District has sold an additional $500,000,000 aggregate principal amount of Measure R Bonds Series F (2006) that are expected to be issued on February 16, 2006. A $3.985 billion general obligation bond authorization also was approved by the voters on November 8, 2005 ("Measure Y"). Prior to the date hereof, the District has not issued any bonds under the Measure Y authorization.

The following Table A-18 sets forth the voter authorized amounts for Proposition BB, Measure K, Measure R and Measure Y prior to the issuance of the Measure Y Bonds.

TABLE A-18

Voter Authorized Amounts

	Proposition BB Bonds ($ in thousands)	Measure K Bonds ($ in thousands)	Measure R Bonds ($ in thousands)	Measure Y Bonds ($ in thousands)
Voter Authorization Amount	$2,400,000[1]	$3,350,000	$3,870,000	$3,985,000
Authorized but Unissued	0	1,250,000	3,270,000[2]	3,985,000

(1) $964.36 million principal amount of the Proposition BB bonds were refunded with proceeds of three refunding bond issues referenced in Table A-19.

(2) The District sold $500,000,000 aggregate principal amount of Measure R Bonds Series F (2006) that are expected to be issued on February 16, 2006.

Source: Los Angeles Unified School District.

The following Tables A-19, A-20 and A-21 below sets forth the outstanding bonds issued under Proposition BB, Measure K and Measure R, respectively.

TABLE A-19

Proposition BB (1997) Bonds

Bonds Issued	Principal Amount ($ in thousands)	Outstanding Amount as of February 8, 2006 ($ in thousands)	Date of Issue
Series A Bonds	$ 356,000[1] [2]	$ 136,080	July 22, 1997
Series B Bonds	350,000[3]	45,320	August 25, 1998
Series C Bonds	300,000[1] [3]	45,745	August 10, 1999
Series D Bonds	386,655[1] [3]	54,945	August 3, 2000
Series E Bonds	500,000[1]	387,680	April 11, 2002
2002 Refunding Bonds[4]	258,375	254,085	April 17, 2002
Series F Bonds	507,345	494,125	March 13, 2003
2004 Refunding Bonds[4]	219,125	219,125	December 21, 2004
2005 Refunding Bonds[4]	467,675	467,675	July 20, 2005
		$2,104,780	

(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 Series A, B, C and D Bonds were refunded with the proceeds of the 2005 Refunding Bonds.

(3) $262.7 million principal amount of Series B, C and D Bonds were refunded with the proceeds of the 2002 Refunding Bonds.

(4) Refunding bonds are not counted against bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-20

Measure K Bonds

Bonds Issued	Principal Amount ($ in thousands)	Outstanding Amount as of February 8, 2006 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000[1]	$2,100,000	March 5, 2003

[1] $131.94 million principal amount of the Series A Bonds will be refunded with proceeds of the Series A Refunding Bonds.

Source: Los Angeles Unified School District.

TABLE A-21

Measure R Bonds

Bonds Issued	Principal Amount ($ in thousands)	Outstanding Amount as of February 8, 2006 ($ in thousands)	Date of Issue
Series A Bonds	$ 72,630	$ 72,630	September 23, 2004
Series B Bonds	60,475	49,015	September 23, 2004
Series C Bonds	50,000	48,370	September 23, 2004
Series D Bonds	16,895	16,895	September 23, 2004
Series E Bonds	400,000	400,000	August 10, 2005
		$586,910[1]	

[1] The District sold $500,000,000 aggregate principal amount of Measure R Bonds Series F (2006) that are expected to be issued on February 16, 2006.

Source: Los Angeles Unified School District.

Certificates of Participation. As of January 8, 2006, the District had outstanding lease obligations (net of economically defeased lease obligations) issued in the form of certificates of participation in the aggregate principal amount of $588 million, representing approximately $834 million in total debt service. The following Table A-22 sets forth the District's gross lease obligations with respect to its outstanding certificates of participation after the issuance of the Measure Y Series A Bonds, Measure Y Series B Bonds and Measure Y Series D Bonds, the proceeds of which will be used to prepay certain base rental payments, as described in the forepart of this Official Statement. The prepayment of certain base rental payments is expected to result in a reduction of the District's total debt service to approximately $598 million.

TABLE A-22

Los Angeles Unified School District
Certificates of Participation Lease Obligations
Gross Debt Service(1) (2)
($ in thousands)

Fiscal Year Ending June 30	Paid From General Fund	Paid From Developer Fees(3)	Total
2006	$ 3,804	$ 19,373	$ 23,177
2007	10,927	19,289	30,217
2008	11,484	19,040	30,524
2009	18,616	11,535	30,151
2010	20,243	11,642	31,885
2011	20,236	11,837	32,073
2012	19,286	11,856	31,141
2013	16,735	12,045	28,780
2014	16,734	14,969	31,702
2015	16,729	9,880	26,609
2016	14,328	10,088	24,416
2017	14,318	10,286	24,605
2018	14,321	10,598	24,918
2019	14,313	4,099	18,412
2020	14,307	4,108	18,415
2021	14,298	4,110	18,408
2022	14,294	4,113	18,407
2023	14,285	4,121	18,406
2024	14,280	4,125	18,405
2025	14,247	4,130	18,377
2026	14,494	4,136	18,631
2027	14,486	-	14,486
2028	14,473	-	14,473
2029	14,455	-	14,455
2030	12,329	-	12,329
2031	12,309	-	12,309
2032	12,303	-	12,303
Total	$392,637	$205,379	$598,015

(1) The District has assumed certain interest rates for the variable rate lease obligations included in Table A-22 above.
(2) Reflects the prepayment of certain base rental payments with proceeds of the Measure Y Series A Bonds, the Measure Y Series B Bonds and the Measure Y Series D Bonds.
(3) In the event that insufficient developer fees are available to pay the indicated lease obligations, the General Fund would need to pay said obligations.

Source: Los Angeles Unified School District.

Other Long Term Obligations. The following Table A-23 summarizes the District's other long-term obligations as of June 30, 2005.

TABLE A-23

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

	Audited Balance As of June 30, 2005
Claims and judgments(1)(2)	$751,172
Compensated absences	76,066
Revolving loan and other loans	2,171
State school building fund	1,219
Capital leases payable	9,951
TOTAL	$840,579

(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. As a result of the change, the net assets of the Workers' Compensation Self-Insurance Fund as of June 30, 2003 and June 30, 2004 have been restated to include previously underfunded liability of $132,769,410.

(2) The increase of $182 million in claims and judgments from Fiscal Year 2003-04 is attributable primarily to (i) an increase of approximately $117 million resulting from changes in certain estimates used in calculating the actuarial present value of worker's compensation claims, the use of a lower discount rate of 3% rather than the 5% used in Fiscal Year 2003-04, and the use of the expected rather than the optimistic outcomes for claims, and (ii) an increase of approximately $15 million resulting from increased statutory benefit levels of approximately 2.3% over Fiscal Year 2003-04 levels, as legislated in AB 749.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report, June 30, 2005.

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 $1.25 billion authorized and unissued general obligation bond authorization remaining under Measure K, $3.27 billion authorized and unissued general obligation bond authorization remaining under Measure R and, prior to the issuance of the Measure Y Bonds, $3.985 billion authorized and unissued general obligation bond authorization remaining under Measure Y. The District has sold $500,000,000 aggregate principal amount of Measure R Bonds Series F (2006) that are expected to be issued on February 16, 2006. After the issuance of the Measure R Bonds Series F (2006) and the Measure Y Bonds, the District will have $2.77 billion authorized and unissued general obligation bond authorization remaining under Measure R and $3.49 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.

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. Approximately $68 million of COPs are expected to be issued in 2006 to fund a parking garage and conference center at the District's administration headquarters.

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. In October 19, 2005, the District issued $410 million 2005-06 Tax and Revenue Anticipation Notes, which mature on October 18, 2006.

Overlapping Debt Obligations

Set forth on Table A-24 on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated January 1, 2006. 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-24 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-24) 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-24

Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of January 1, 2006

2005-06 Assessed Valuation:	$363,869,479,145
Redevelopment Incremental Valuation:	26,127,969,817
Adjusted Assessed Valuation:	$337,741,509,328

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable [1]	Debt 1/1/06	
Los Angeles County	46.161%	$ 7,480,390	
Los Angeles County Flood Control District	46.653	66,223,934	
Metropolitan Water District of Southern California	23.526	98,665,691	
Los Angeles Community College District	81.734	567,810,185	
Los Angeles Unified School District	**100.**	**4,791,690,000**	[2]
City of Los Angeles	99.915	1,444,021,538	
Other Cities	Various	13,935,356	
Palos Verdes Library District	4.883	516,377	
City Community Facilities Districts	100.	146,210,000	
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.	82,575,000	
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.915	176,065,217	
City of Los Angeles Assessment District No. 1	100.	10,508,999	
Other City and Special District 1915 Act Bonds	100.	29,775,000	
Los Angeles County Regional Park & Open Space Assessment District	46.161	150,350,993	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$7,585,828,680	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Los Angeles County General Fund Obligations	46.161 %	$ 597,536,862	
Los Angeles County Pension Obligations	46.161	484,735,459	
Los Angeles County Superintendent of Schools Certificates of Participation	46.161	10,055,979	
Pasadena Area Community College District Certificates of Participation	0.0003	13	
Los Angeles Unified School District Certificates of Participation	**100.**	**587,998,350**	[3]
City of Los Angeles General Fund and Judgement Obligations	99.915	1,167,207,030	
Other City General Fund and Pension Obligations	Various	165,327,854	
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	59,151,607	
San Gabriel Valley Mosquito Abatement District Certificates of Participation	0.193	1,747	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,072,014,901	
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		18,108,960	
City self-supporting bonds		13,390,687	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,040,515,254	
GROSS COMBINED TOTAL DEBT		$10,657,843,581	[4]
NET COMBINED TOTAL DEBT		$10,626,343,934	

(1) Based on 2004-05 ratios.
(2) Excludes the Series A Refunding Bonds and the Measure Y Bonds to be sold and the Measure R Bonds Series F (2006) that are expected to be issued on February 16, 2006.
(3) Includes the Refunded Certificates. See “Plan of Finance” in the forepart of this Official Statement.
(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

The California 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 California 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 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 market 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 market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California 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 California 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 53720-53730. 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 California 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 California 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 California 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. 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, and 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, 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 47 represents the second large general obligation bond measure for school construction and modernization approved by California voters in the last several years. Proposition 1A was previously approved in November 1998 and provided $6.7 billion of capital funding for 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 K-12 school facilities ($10 billion) and 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 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 Legislature will select specific projects to be funded by the bond proceeds.

Set forth below is Table A-25 showing the District's actual apportionments and estimated future funding from Proposition 1A, Proposition 47 and Proposition 55.

TABLE A-25

Los Angeles Unified School District
State Bond Initiative Funding
Actual Apportionments and Estimated Future Funding
($ in thousands)

State Bond Measure	New Construction	Modernization	Total
Proposition 1A	$ 973	$202	$1,175
Proposition 47	1,020	122	1,142
Proposition 55	1,868	545	2,413
Total	$3,861	$869	$4,730

Source: Los Angeles Unified School District.

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 Notes are an obligation of the City or the County.

Income

The following Table A-26 summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2000 through 2004.

TABLE A-26

Median Household
Effective Buying Income[1]
For Years 2000 through 2004

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2000	$37,321	$41,628	$44,464	$39,129
2001	36,548	40,789	43,532	38,365
2002	33,398	37,983	42,484	38,035
2003	33,541	38,311	42,924	38,201[2]
2004	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) Survey of Buying Power (2004) (unpublished).

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

Set forth in Table A-27 below is the distribution of effective buying income by certain income groupings per household for the City, the County and the State.

TABLE A-27

Income Groupings 2004
(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	41.5

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.

The Table A-28 below summarizes the development of wage and salary employment in the County during the 2000-2004 period.

TABLE A-28

Labor Force and Employment in Los Angeles County[1]

	2000	2001	2002	2003	2004
Civilian Labor Force[2]	4,671,800	4,777,000	4,789,800	4,788,800	4,809,700
Employment	4,421,900	4,506,900	4,465,600	4,451,700	4,494,000
Unemployment	249,900	270,100	324,200	337,100	315,700
Unemployment Rate	5.3%	5.7%	6.8%	7.0%	6.6%
Wage and Salary Employment[3]:					
Farm	7,700	8,400	7,800	7,900	7,600
Natural Resources and Mining	3,400	3,800	3,700	3,800	3,900
Construction	131,700	136,800	134,500	133,500	139,400
Manufacturing	611,300	577,900	534,800	500,000	484,200
Trade, Transportation and Utilities	784,800	789,800	782,700	777,200	780,200
Information	242,600	226,300	207,300	198,800	208,100
Financial Activities (Finance, Insurance, Real Estate)	218,700	228,900	232,600	239,800	243,200
Business and Professional Services	598,200	588,000	575,000	568,400	561,000
Education and Health Services	416,200	432,200	450,400	460,300	467,700
Leisure and Hospitality	344,300	348,500	354,200	363,500	373,100
Other Services	139,700	143,200	145,600	145,800	144,800
Government	581,300	598,300	606,100	599,200	586,600
Total	4,079,800	4,082,000	4,034,600	3,998,100	3,999,700

(1) Columns may not add to totals due to independent rounding.
(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-29 sets forth the history of taxable transactions in the County for the years 2000 through 2004.

TABLE A-29

County of Los Angeles
Taxable Transactions
(in thousands of dollars)

	2000	2001	2002	2003	2004[1]
Retail Stores:					
Apparel Stores	$ 3,669,195	$ 3,812,218	$ 4,306,630	$ 4,356,666	$ 3,359,322
General Merchandise Stores	10,577,863	10,860,214	11,196,707	11,749,089	8,663,069
Specialty Stores	11,754,467	11,541,707	11,638,907	12,107,226	9,279,668
Food Stores	4,212,973	4,210,291	4,235,299	4,240,110	3,104,233
Eating/Drinking Places	9,716,805	10,081,425	10,541,880	11,151,772	8,965,818
Household Furnishings and Appliances	3,272,358	3,193,526	3,378,316	3,719,168	2,893,694
Building Materials	4,821,940	5,069,789	5,528,888	6,016,548	5,492,895
Automotive	20,594,140	21,387,319	22,273,351	24,307,334	19,806,540
Other Retail Stores	1,701,638	1,678,073	1,717,999	1,778,813	1,426,639
Retail Store Total	$ 70,321,379	$ 71,834,562	$ 74,547,977	$ 79,426,726	$62,992,103
Business and Personal Services	5,199,902	5,134,859	5,055,527	5,066,634	3,870,204
All Other Outlets	31,152,253	30,457,271	29,149,560	29,192,062	22,667,170
Total All Outlets	$106,673,534	$107,426,692	$108,753,064	$113,685,422	$89,529,477
Number of permits	268,431	272,973	281,496	289,892	295,398

(1) As of Third Quarter 2004.

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-30 in alphabetical order.

TABLE A-30

Los Angeles County
Major Non-Governmental Employers (2005)

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	29,593
Boeing Co.	Aerospace high technology	20,593
Northrop Grumman Corp.	Aerospace/Defense design and manufacturing	20,400
Ralph's Grocery Co.	Supermarket operator	16,287
Tenet Healthcare Corp.	Hospitals	14,733
University of Southern California	Education- private university	12,111
Target Corp.	Department retailer	10,811
ABM Industries, Inc.	Janitorial, lighting, parking and security service	9,800
Wal-Mart Stores Inc.	Retail	9,700
SBC Communications	Communications	9,500
May Department Stores Co.	Department stores	8,900
CPE	Employee benefit consultants	8,500
Cedars-Sinai Medical Center	Medical center	8,494
Albertson's Inc.	Supermarket operator	7,748
Washington Mutual Bank FA	Commercial banking	7,747
UPS	Messenger service	7,022
Catholic Healthcare West	Hospitals	6,636
Amgen Inc.	Biotechnology	6,330
Southern California Edison	Electric utility	6,201
Costco Wholesale	Retail	5,959
Providence Health System	Full service medical facilities	5,504
Long Beach Memorial Medical Center	Medical center	4,947
Lockheed Martin Corp	Defense, space, information, technology	4,789
Sempra Energy	Energy services	4,391
Wellpoint Health Networks Inc.	Health plans	4,218

Source: Los Angeles Business Journal, "The Lists 2005."

Construction

The following Table A-31 sets forth the valuation of permits for residential buildings and new single-family and multi-family dwelling units in the City for the years 2000 to 2005.

TABLE A-31

City of Los Angeles
Permit Valuations and Units of Construction
2000 to 2005
(in thousands of dollars)

Year	Valuation Residential	New Dwelling Units Single Family	New Dwelling Units Multi-Family	Total Units
2000	$1,337,149	1,679	4,950	6,629
2001	1,448,140	1,723	5,528	7,251
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	2,262,947	2,001	9,549	11,550

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 cots. 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 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.

"NEA" means the National Education Association.

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

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

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

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

APPENDIX B

SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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KPMG

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, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2005, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 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 41 and 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 145 to 152 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 153 and 154 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 22, 2005

Management's Discussion and Analysis

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, 2005. 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 \$3.7 billion (*net assets*). Of this amount, \$310.0 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets decreased by \$74.6 million, due mainly to higher salaries, employee benefits, books and supplies and capital outlay.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2.6 billion, a decrease of \$1.0 billion from June 30, 2004.
- At the end of the current fiscal year, unreserved fund balance for the general fund, including designated for economic uncertainties, was \$253.0 million, or 4.1 percent of total general fund expenditures.
- The District's total long-term obligations increased by \$180.5 million (3.1 percent) during the current fiscal year. The increase resulted from a net increase in estimated future liabilities for workers' compensation claims and a net increase in outstanding general obligation bonds with an accompanying net 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.

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 21 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 is to record estimated claim liabilities to the extent funded. This has approximated the present value of the claims and is, therefore, 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.

Beginning with fiscal year ended June 30, 2004, the District now records 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, in the adoption of the 2004-2005 budget, provided funds to partially cover the negative net assets in the Fund.

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 27-57 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 59-78 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 $3.7 billion at the close of the most recent year.

By far the largest portion of the District's net assets (72.7 percent) 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 is 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.

Net Assets (in thousands)
As of June 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Current assets	$ 4,929,137	$ 5,920,977
Capital assets	6,459,158	5,372,400
Total assets	$11,388,295	$11,293,377
Current liabilities	$ 1,736,603	$ 1,747,587
Long-term liabilities	5,935,608	5,755,080
Total liabilities	$ 7,672,211	$ 7,502,667
Net assets:		
Invested in capital assets, net of related debt	$ 2,704,302	$ 2,682,203
Restricted:		
Restricted for debt service	217,807	215,149
Restricted for program activities	483,972	819,747
Unrestricted	310,003	73,611
Total net assets	$ 3,716,084	$ 3,790,710

Approximately 18.9 percent of the District's net assets ($701.8 million) represent resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($310.0 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 $1.0 billion decrease in current assets was primarily a result of liquidation of various investments, with the proceeds going towards funding construction and other school improvement projects. These changes resulted in a corresponding increase in the capital assets of $1.1 billion.

Long-term liabilities were increased by $180.5 million due to a net increase in estimated future liabilities for workers' compensation claims and a net increase in outstanding general obligation bonds with an accompanying net decrease in outstanding certificates of participation.

Changes in Net Assets (in thousands)

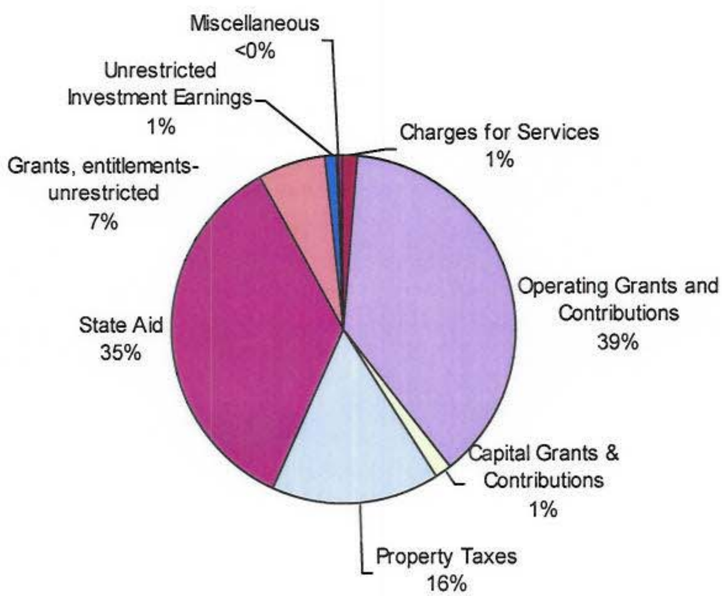
	Governmental Activities	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	$ 108,881	$ 110,156
Operating grants and contributions	2,795,565	2,557,644
Capital grants and contributions	93,700	620,454
Total program revenues	2,998,146	3,288,254
General revenues:		
Property taxes levied for general purposes	850,516	1,199,891
Property taxes for debt service	308,537	236,121
Property taxes levied for community redevelopment	3,394	3,756
State aid, formula grants	2,582,322	2,094,751
Grants, entitlements and contributions not restricted to specific programs	489,060	415,325
Unrestricted investment earnings	70,589	60,898
Miscellaneous	13,001	8,519
Total general revenues	4,317,419	4,019,261
Special item – gain on sale of capital assets	-	11,705
Total revenues and special item	7,315,565	7,319,220
Expenses:		
Instruction	3,996,454	3,762,124
Support services:		
Support services – students	311,449	292,578
Support services – instructional staff	647,207	725,187
Support services – general administration	46,195	48,074
Support services – school administration	444,656	418,022
Support services – business	138,800	156,713
Operation and maintenance of plant services	588,588	631,941
Student transportation services	161,845	177,416
Data processing services	230,434	251,850
Operation of non-instructional services	273,236	254,493
Facilities acquisition and construction services	160,224	242,761
Other uses	778	661
Interest expense	256,372	233,585
Interagency disbursements	28,927	32,996
Depreciation – unallocated	105,026	101,494
Total expenses	7,390,191	7,329,895
Changes in net assets	(74,626)	(10,675)
Net assets – beginning	3,790,710	3,801,385
Net assets – ending	$3,716,084	$3,790,710

The District's net assets decreased by $74.6 million in the current fiscal year. The major components of this decrease are as follows:

- Capital grants and contributions decreased by $526.8 million due to lower school facilities apportionments from State bonds. However, operating grants and contributions along with total general revenues are higher.
- Total expenses increased by $60.3 million primarily due to higher salaries, employee benefits, books and supplies and higher interest expense resulting from additional issuances of general obligation bonds.

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, 2005



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 $2.6 billion, a decrease of $1.0 billion in comparison with the prior year. Approximately 86.8 percent ($2.2 billion) of this total combined ending fund balance constitutes *unreserved fund balance,* which is available for spending at the District's discretion. The remaining 13.2 percent is *reserved* to indicate that it is not available for new spending because it has already been committed for: 1) debt service ($224.4 million), 2) legally restricted balances ($70.5 million), 3) inventories and prepaid expenses ($35.3 million) and 4) revolving cash ($5.9 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 $253.0 million, while the total fund balance reached $349.6 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 4.1 percent of the total general fund expenditures, while the total fund balance represents 5.7 percent of that same amount.

The fund balance of the District's general fund increased by $25.6 million during the current fiscal year. The key factor for the increase was an increase in all categories of revenues, most notably, revenue limit sources and other state revenues.

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

	District Bonds	State Bonds
Fund balance, June 30, 2005:		
Reserved for revolving cash	$ 3,000	$ -
Reserved for prepaid expenses	4,328	-
Unreserved	1,123,595	246,432
Total	1,130,923	246,432
Fund balance, July 1, 2004	2,172,030	406,191
Decrease in fund balance	$(1,041,107)	$(159,759)

The fund balance decreased during the current year for the above-mentioned funds 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 $271.3 million. The net decrease of $133.0 million in the current year is largely the result of rising costs of workers' compensation self-insurance claims.

General Fund Budgetary Highlights

Differences between the original 2004-05 General Fund budget (the 2004-05 Final Budget adopted by the Board of Education in August of 2004) and the year-end budget resulted in a net decrease to the overall 2004-05 General Fund ending balance. This decrease resulted primarily due to the anticipated spending down of balances related to certificates of participation carried forward from previous years.

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 2005-06 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 has begun in 2005-06 to indicate in its budget documents both an "authorized" expenditure level, indicating the gross amount available for expenditure, and an "estimated" expenditure level, indicating the expected expenditure level, 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.

The $344.5 million variance in revenues between adjusted budget and actual primarily occurred because multi-year categorical program revenues which 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 $168.1 million variance in books and supplies expenditures between adjusted budget and actual occurred primarily because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of this results from the factor described in the revenue variance – the full budgeting of expenditures in the first year of a multi-year 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 $118.9 million variance in Services and Other Operating Expenditures between adjusted budget and actual occurred primarily because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of this results from the factor described in the revenue variance – the full budgeting of expenditures in the first year of a multi-year grant.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2005 amounts to $6.5 billion (net of accumulated depreciation), a 20.2% 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 $2.6 billion.
- Various building additions and modernizations were completed at a cost of $372.1 million.
- A total of 32 new schools were completed in 2005 and will be opening their doors during the 2005-2006 school year to new students. This is the District's largest number of new schools to open in a single year.

Capital Assets (net of accumulated depreciation)
As of June 30, 2005 and 2004 (in thousands)

	Governmental Activities	
	2005	2004
Sites	$ 1,805,711	$ 1,671,373
Improvement of sites	102,275	109,798
Buildings and improvements	1,824,125	1,544,440
Equipment	126,572	301,613
Construction in progress	2,600,475	1,745,176
Total	$ 6,459,158	$ 5,372,400

Certain 2004 balances were reclassified to conform to the 2005 presentation based on a new fixed asset system implemented by the District. The reclassification did not have a material impact on the District's financial statements. Additional information on the District's capital assets can be found in Note G on page 39 of this report.

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of $5.9 billion. Of this amount, $4.5 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	
	2005	2004
General Obligation Bonds	$4,479,633	$4,328,210
State School Building Aid Fund	1,219	1,602
Liability - compensated absences	76,066	77,313
Certificates of Participation (COPs)	615,396	764,960
Children's Center Facilities Loan	792	792
Capital leases	9,951	13,471
CA Energy Commission Loan	1,379	-
Self-insurance claims	751,172	568,732
Total	$5,935,608	$5,755,080

The District's total long-term obligations increased by $180.5 million (3.1 percent) during the current fiscal year. The key factors in this increase were the issuances of general obligation bonds and the increase in the liabilities for self-insurance claims, offset by the refunding of certificates of participation.

In September 2004, Series A, B, C and D of Measure R general obligation bonds were issued for $200.0 million. This was followed by a $219.1 million sale in December 2004 of 2004 General Obligation Refunding Series A-1 and A-2 bonds. Of this $419.1 million total, $369.1 million was used to refund previously issued certificates of participation and general obligation bonds, while $50.0 million (Series C) was used to fund land acquisition, early childhood education projects related to full-day kindergarten, audit expenses, adult education programs and school safety projects.

During the current fiscal year, the District also issued the following certificates of participation:

- $50.7 million 2004 Series A to refinance and refund previously issued certificates of participation
- $6.9 million 2004 Series B to refinance and refund previously issued certificates of participation
- $86.5 million 2005 Series A to refund previously issued certificates of participation
- $21.3 million 2005 Series B to fund improvements to the administration headquarters
- $44.2 million 2005 Series C to refund previously issued certificates of participation.

The District's current underlying ratings on its COPs for nonabatable leases are A+, A1 and A- from Standard & Poor's (S & P), Moody's Investors Service (Moody's) and Fitch Ratings, respectively; for abatable leases, the underlying ratings are A+, A2 and A-, respectively. For general obligation debt, S & P's, Moody's and Fitch have assigned their municipal bond ratings of "AA-", "Aa3" and "A+", 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" by S & P, "Aaa" by Moody's and "AAA" by Fitch.

State statutes limit the amount of general obligation debt a school district may issue to 2.5 percent of its total assessed valuation. The debt limitation for the District as of June 30, 2005 is $8.298 billion, which is in excess of the District's outstanding general obligation debt.

Additional information on the District's long-term obligations can be found in Notes I, J and K on pages 44-51 of this report.

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

State of California and Los Angeles Unified School District Fiscal Outlook

Governor Arnold Schwarzenegger signed the 2005-2006 State Budget Act on July 11, 2005. The State Budget was balanced without the need for issuances of deficit-financing bonds, as had been necessary to balance the 2004-2005 State spending plan, but did not include the return to K-14 education of $2 billion, plus additional funds resulting from increased State revenues, which should have been added to the education budget in accordance with the 2004-2005 budget-balancing "deal" between the Governor and the public education. Instead, the Governor elected to use the increased revenues to assist in balancing the 2005-2006 State Budget.

Despite the Governor's decision not to return these borrowed funds, the 2005-2006 State Budget Act provided to public education a fully funded cost-of-living adjustment (COLA) of 4.23% and reduced the Base Revenue Limit deficit factor from 2.14% in 2004-2005 to 0.909% in 2005-2006. No equalization funds were provided in the 2005-2006 State Budget Act, however.

The State's financial outlook for 2006-2007 and subsequent out-years remain uncertain. The non-partisan Legislative Analyst's Office (LAO) has estimated that the State will face a deficit of approximately $6 billion in 2006-2007, even given approximately $2 billion in ongoing budgetary savings in the 2005-2006 State Budget. The LAO 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, the District will continue to review the State's finances closely to determine whether mid-year 2005-2006 reductions may be necessary, as well as whether the combination of State revenue shortfalls and the District's own expenditure needs will necessitate budget reductions in 2006-2007.

Adding to the potential uncertainty of 2006-2007 and out-year funding was the fact that Governor Schwarzenegger had placed on the November 8, 2005 ballot a variety of measures with the potential to profoundly and permanently impact public education funding. Most significant of these measures was Proposition 76, the "California Live Within Our Means Act," which, if passed, would have dramatically affected Proposition 98, the voter-approved measure intended to safeguard public education funding. The voters' defeat of those measures does not guarantee public education an increased level of funding, nor does it rule out future efforts to reduce K-12 funding guarantees. For the present, however, the District can plan its financial future with the assurance that the potentially negative elements of the Governor's proposals will not impact funding.

For the 2005-2006 fiscal year, the District has balanced its budget through a combination of enhanced revenues and budget reductions. The District's 2005-2006 spending plan reflects a projected General Fund ending balance of $358.6 million, which exceeds the beginning balance by $9 million. The District has continued to implement 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 adopted a Budget and Finance Policy (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 such as long-term commitments for employee health care, liability self-insurance and workers' compensation, 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 (so-called "structural balance") and for the District to make efforts 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 will not be possible to implement all of its precepts immediately. However, many of the Policy's recommendations have been implemented. Among these are: a Revenue Enhancement Unit, started prior to the beginning of the 2004-2005 fiscal year, to seek means of maximizing District revenue; 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.

Measure Y Victory

On November 8, 2005, ballot Measure Y, authorizing the District to issue up to $3.985 billion of general obligation bonds, was approved by 65.68% of voters. This marks a commitment by voters to improve the educational environment in the Los Angeles area. The proceeds will be used 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. Measure Y will also continue repair and upgrade of aging and deteriorating classrooms and restrooms, build new neighborhood schools, upgrade fire and earthquake safety and emergency response equipment and 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, 2005 (in thousands)

		Governmental Activities
ASSETS		
Cash and cash equivalents		$ 3,180,396
Investments		826,235
Property taxes receivable		156,065
Accounts receivable, net		685,059
Accrued interest and dividends receivable		24,799
Prepaid expense		20,718
Deferred charges		4,858
Inventories		31,007
Capital assets:		
Sites	$ 1,805,711	
Improvement of sites	345,725	
Buildings and improvements	3,104,384	
Equipment	1,094,832	
Construction in progress	2,600,475	
Less: Accumulated depreciation	(2,491,969)	
Total capital assets, net of depreciation		6,459,158
TOTAL ASSETS		11,388,295
LIABILITIES		
Vouchers and accounts payable		387,872
Contracts payable		162,187
Accrued payroll		264,240
Other payables		171,813
Unearned revenue		229,702
Tax and revenue anticipation notes and interest payable		520,789
Long-term liabilities:		
Portion due or payable within one year		338,635
Portion due or payable after one year		5,596,973
TOTAL LIABILITIES		7,672,211
NET ASSETS		
Invested in capital assets, net of related debt		2,704,302
Restricted for:		
Debt service		217,807
Program activities		483,972
Unrestricted		310,003
TOTAL NET ASSETS		$ 3,716,084

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005 (in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRI-BUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRI-BUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
Governmental Activities:					
Instruction	$ 3,996,454	$ 2,611	$ 1,393,191	$ -	$ (2,600,652)
Support services - students	311,449	-	160,625	-	(150,824)
Support services - instructional staff	647,207	449	507,369	-	(139,389)
Support services - general administration	46,195	-	32	-	(46,163)
Support services - school administration	444,656	-	102,449	-	(342,207)
Support services - business	138,800	2,754	115,938	-	(20,108)
Operation and maintenance of plant services	588,588	4,336	117,736	5,454	(461,062)
Student transportation services	161,845	-	158,174	-	(3,671)
Data processing services	230,434	-	5,973	-	(224,461)
Operation of non-instructional services	273,236	21,251	227,186	-	(24,799)
Facilities acquisition and construction services*	160,224	77,480	6,619	88,246	12,121
Other uses	778	-	273	-	(505)
Interest expense	256,372	-	-	-	(256,372)
Interagency disbursements**	28,927	-	-	-	(28,927)
Depreciation - unallocated***	105,026	-	-	-	(105,026)
Total	$ 7,390,191	$ 108,881	$ 2,795,565	$ 93,700	(4,392,045)

General Revenues:	
Taxes:	
Property taxes, levied for general purposes	850,516
Property taxes, levied for debt service	308,537
Property taxes, levied for community redevelopment	3,394
State aid - formula grants	2,582,322
Grants, entitlements and contributions not restricted to specific programs	489,060
Unrestricted investment earnings	70,589
Miscellaneous	13,001
Total General Revenues	4,317,419
Change in net assets	(74,626)
Net assets - beginning	3,790,710
Net assets - ending	$ 3,716,084

* 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, 2005 (in thousands)

	GENERAL	DISTRICT BONDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash in county treasury, banks and on hand	$ 529,597	$ 1,273,026	$ 927,009	$ 2,729,632
Cash held by trustee	121,811	338	138,734	260,883
Investments	518,920	-	10,264	529,184
Taxes receivable	132,933	-	23,132	156,065
Accounts receivable - net	557,852	9,900	116,066	683,818
Accrued interest and dividends receivable	5,508	13,167	2,480	21,155
Prepaid expenditures	-	4,328	-	4,328
Due from other funds	856,166	425,476	181,664	1,463,306
Inventories	23,314	-	7,693	31,007
TOTAL ASSETS	$ 2,746,101	$ 1,726,235	$ 1,407,042	$ 5,879,378
LIABILITIES				
Vouchers and accounts payable	$ 267,832	$ 65,347	$ 28,425	$ 361,604
Contracts payable	2,669	124,694	34,824	162,187
Accrued payroll	246,644	2,461	16,560	265,665
Other payables	115,438	14,829	40,058	170,325
Due to other funds	888,922	387,981	185,910	1,462,813
Deferred revenue	354,238	-	31,529	385,767
Tax and revenue anticipation notes		-		
and interest payable	520,789	-	-	520,789
TOTAL LIABILITIES	2,396,532	595,312	337,306	3,329,150
FUND BALANCES				
Fund balances:				
Reserved	96,540	7,328	232,269	336,137
Unreserved:				
Designated	152,895	1,123,595	-	1,276,490
Designated, reported in:				
Special revenue funds	-	-	94,943	94,943
Capital projects funds	-	-	734,183	734,183
Undesignated	100,134	-	-	100,134
Undesignated, reported in:				
Special revenue funds	-	-	6,116	6,116
Capital projects funds	-	-	2,225	2,225
TOTAL FUND BALANCES	349,569	1,130,923	1,069,736	2,550,228
TOTAL LIABILITIES AND FUND BALANCES	$ 2,746,101	$ 1,726,235	$ 1,407,042	$ 5,879,378

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, 2005 (in thousands)

Total fund balances - governmental funds	$	2,550,228
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 $8,951,127 and the accumulated depreciation is $2,491,969.		6,459,158
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.		156,065
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.		(271,282)
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.		(5,182,943)
Other deferred charges not reflected in fund financials.		4,858
Total net assets - governmental activities	$	3,716,084

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005 (in thousands)

	GENERAL	DISTRICT BONDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Revenue limit sources	$ 3,431,893	$ -	$ 143,364	$ 3,575,257
Federal revenues	796,877	-	274,751	1,071,628
Other state revenues	1,889,972	-	219,702	2,109,674
Other local revenues	85,737	36,704	426,823	549,264
TOTAL REVENUES	6,204,479	36,704	1,064,640	7,305,823
EXPENDITURES				
Current:				
Certificated salaries	2,977,223	-	133,533	3,110,756
Classified salaries	870,913	45,951	152,731	1,069,595
Employee benefits	1,228,244	17,430	103,627	1,349,301
Books and supplies	368,697	7,225	123,489	499,411
Services and other operating expenditures	555,103	53,909	38,139	647,151
Capital outlay	53,784	1,007,484	336,975	1,398,243
Debt service - principal	5,518	-	104,983	110,501
Debt service - bond, COPs and capital leases interest	901	-	231,432	232,333
Debt service - refunding bond issuance cost	-	-	1,337	1,337
Other outgo	33,748	-	-	33,748
TOTAL EXPENDITURES	6,094,131	1,131,999	1,226,246	8,452,376
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	110,348	(1,095,295)	(161,606)	(1,146,553)
OTHER FINANCING SOURCES (USES)				
Transfers in	28,238	59	569,764	598,061
Transfers - support costs	6,109	-	(6,109)	-
Transfers out	(342,215)	(149,995)	(105,851)	(598,061)
Proceeds from issuance of bonds	-	200,000	-	200,000
Premium on bonds issued	-	4,124	-	4,124
Proceeds from refunding bonds issued	-	-	219,125	219,125
Premium on refunding bonds issued	-	-	16,338	16,338
Proceeds from COPs	219,790	-	-	219,790
Payment to refunded bonds escrow agent	-	-	(234,126)	(234,126)
Payment to refunded COPs escrow agent	-	-	(333,958)	(333,958)
Proceeds from CA Energy Commission loan	1,318	-	-	1,318
Proceeds from capital leases	1,999	-	-	1,999
TOTAL OTHER FINANCING SOURCES (USES)	(84,761)	54,188	125,183	94,610
NET CHANGES IN FUND BALANCES	25,587	(1,041,107)	(36,423)	(1,051,943)
FUND BALANCES, JULY 1, 2004	323,982	2,172,030	1,106,159	3,602,171
FUND BALANCES, JUNE 30, 2005	$ 349,569	$ 1,130,923	$ 1,069,736	$ 2,550,228

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
For the Year Ended June 30, 2005 (in thousands)

Total net changes in fund balances - governmental funds	$ (1,051,943)
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 ($1,398,244) exceeds depreciation ($311,439) and loss on equipment disposal ($47) in the period.	1,086,758
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.	(1,999)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	110,581
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.	(652,575)
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.	568,084
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.	18,490
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.	(355)
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.	(18,713)
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.	(132,954)
Changes in net assets of governmental activities	$ (74,626)

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
For the Year Ended June 30, 2005 (in thousands)

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET*
REVENUES				
Revenue limit sources	$ 3,439,450	$ 3,439,450	$ 3,431,893	$ (7,557)
Federal revenues	1,054,595	1,028,743	796,877	(231,866)
Other state revenues	1,968,545	1,992,266	1,889,972	(102,294)
Other local revenues	91,256	88,561	85,737	(2,824)
TOTAL REVENUES	6,553,846	6,549,020	6,204,479	(344,541)
EXPENDITURES				
Current:				
Certificated salaries	2,871,845	3,009,226	2,977,223	(32,003)
Classified salaries	913,215	882,816	870,913	(11,903)
Employee benefits	1,296,829	1,249,670	1,228,244	(21,426)
Books and supplies	399,769	536,830	368,697	(168,133)
Services and other operating expenditures	643,239	674,015	555,103	(118,912)
Capital outlay	59,632	54,495	53,784	(711)
Debt service - principal	7,912	9,880	5,518	(4,362)
Debt service - bond, COPs and capital leases interest	120	901	901	-
Other outgo	328,270	78,406	33,748	(44,658)
TOTAL EXPENDITURES	6,520,831	6,496,239	6,094,131	(402,108)
EXCESS OF REVENUES OVER EXPENDITURES	33,015	52,781	110,348	57,567
OTHER FINANCING SOURCES (USES)				
Transfers in	30,934	29,031	28,238	(793)
Transfers - support costs	6,869	(5,508)	6,109	11,617
Transfers out	(136,924)	(342,497)	(342,215)	282
Proceeds from COPs	59,459	212,220	219,790	7,570
Proceeds from CA Energy Commission loan	-	-	1,318	1,318
Proceeds from capital leases	3,888	3,888	1,999	(1,889)
Contribution to restricted programs	2,840	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(32,934)	(102,866)	(84,761)	18,105
NET CHANGES IN FUND BALANCES	81	(50,085)	25,587	75,672
FUND BALANCES, JULY 1, 2004	323,982	323,982	323,982	-
FUND BALANCES, JUNE 30, 2005	$ 324,063	$ 273,897	$ 349,569	$ 75,672

* 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, 2005 (in thousands)

ASSETS	
Cash in county treasury, banks and on hand	$ 189,881
Investments	297,051
Accounts receivable - net	1,229
Accrued interest and dividends receivable	3,644
Prepaid expenses	16,390
Due from other funds	38,497
TOTAL ASSETS	546,692
LIABILITIES	
Current:	
Vouchers and accounts payable	26,268
Accrued payroll	733
Other payables	823
Due to other funds	38,978
Estimated liability for self-insurance claims	236,143
Noncurrent:	
Estimated liability for self-insurance claims	515,029
TOTAL LIABILITIES	817,974
TOTAL NET DEFICIT - UNRESTRICTED	$ (271,282)

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
For the Year Ended June 30, 2005 (in thousands)

OPERATING REVENUES	
In-District premiums	$ 847,221
TOTAL OPERATING REVENUES	847,221
OPERATING EXPENSES	
Certificated salaries	147
Classified salaries	5,466
Employee benefits	2,628
Supplies	445
Premiums and claims expenses	969,498
Claims administration	11,555
Other contracted services	1,042
TOTAL OPERATING EXPENSES	990,781
OPERATING LOSS	(143,560)
NONOPERATING REVENUES	
Interest income	10,582
Other local income	24
TOTAL NONOPERATING REVENUES	10,606
CHANGES IN NET DEFICIT	(132,954)
TOTAL NET DEFICIT, JULY 1, 2004	(138,328)
TOTAL NET DEFICIT, JUNE 30, 2005	$ (271,282)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2005 (in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	$ (6,648)
Cash payments for goods and services	(822,176)
Receipts from assessment to other funds	886,840
Other operating revenue	10,234
Net cash provided by operating activities	68,250
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	8,547
Purchase of investments	(297,323)
Net cash used in investing activities	(288,776)
Net decrease in cash and cash equivalents	(220,526)
Cash and cash equivalents, July 1	410,407
Cash and cash equivalents, June 30	$ 189,881
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	$ (143,560)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in accounts receivable	701
(Increase) in prepaid expense	(1,225)
Decrease in due from other funds	5,689
(Decrease) in vouchers and accounts payable	(765)
(Decrease) in accrued payroll	(303)
(Decrease) in other payables	(7,249)
Increase in due to other funds	32,522
Increase in estimated liability for self-insurance claims - current	53,538
Increase in estimated liability for self-insurance claims - noncurrent	128,902
Total adjustments	211,810
Net cash provided by operating activities	$ 68,250

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005 (in thousands)

	PENSION TRUST FUNDS	AGENCY FUND
ASSETS		
Cash in county treasury, banks and on hand	$ 18,652	$ 20,926
Investments	415	-
Due from Primary Government	5	-
Accrued interest and dividends receivable	111	-
TOTAL ASSETS	19,183	20,926
LIABILITIES		
Other payables	18,721	20,926
Due to Primary Government	17	-
TOTAL LIABILITIES	18,738	20,926
TOTAL NET ASSETS - held in trust	$ 445	$ -

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
For the Year Ended June 30, 2005 (in thousands)

ADDITIONS	
Investment income	$ 76
TOTAL ADDITIONS	76
DEDUCTIONS	
Distributions to participants	190
Other contracted services	66
TOTAL DEDUCTIONS	256
CHANGES IN NET ASSETS	(180)
TOTAL NET ASSETS, JULY 1, 2004	625
TOTAL NET ASSETS, JUNE 30, 2005	$ 445

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE A – 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 State of 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.

1) 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 LAUSD Finance Corporation and the LAUSD 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.

2) Government-wide and Fund Financial Statements – With the implementation of GASB Statement Nos. 34, 37, 38 and Interpretation No. 6, 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 is 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.

3) 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 estimated to be collectible and receivable within 60 days of the current period are recorded as revenue, while those estimated to be received after 60 days from the end of the fiscal period are recorded as receivables and deferred revenue. Investment income is accrued when earned. All other revenues are not considered susceptible to accrual.

Expenditures for the governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures as well as 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.

4) 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.

5) 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 2004-2005:

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 revenues 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 revenues 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 and Building Account – Measure R, established on July 19, 2004 to account for revenues received by the passage of Measure R in March 2004.

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 Bond Funds (Bond Proceeds, Measure K and Measure R) are reported separately as major funds in fiscal year 2004-2005.

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 22-23.

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 2005-2006, 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 Funds:

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

Annuity Reserve Fund – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the Fund and distribute its net assets to the members. The Fund's remaining equity as of June 30, 2005 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.

6) 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 D - 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, Debt Service, Operating Transfers Out and Other Financing Uses. During the 2004-2005 fiscal year, the Workers' Compensation Self-Insurance Fund expenditures exceeded revenues by $114.1 million. The resulting sharp increase in the deficit is attributable to the District's having adopted more conservative assumptions about the future cost of claims and the interest rate used in calculating the present value of future claims. The increase in the estimated liability was reflected in the District's 2005-2006 budget, which recognized an accumulated unfunded deficit of $288.6 million in the Workers' Compensation Self-Insurance Fund. Not withstanding the unfunded deficit, the Workers' Compensation Self-insurance fund does not have a cash flow problem. The fund generated $46.8 million in cash flows from operating activities and has approximately $86 million and $297 million in cash and investments as of June 30, 2005, 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.

7) 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 percent invested each day. Earnings from the pooled investments are allocated monthly to each participating fund based on each fund's average investment in the pool.

All District-directed investments are made in compliance with Government Code 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.

8) 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.

9) 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.

10) 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.

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

11) Contracts Payable – Contracts payable include only the portion applicable to work completed and unpaid as of June 30, 2005. All significant incomplete portions of contracts are reported as reserved fund balance.

12) Compensated Absences – All vacation leave is accrued when incurred in the government-wide statements. 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 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.

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 42841.

13) 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.

14) Revenue Limit Sources – The revenue limit is the basic financial support for District activities. There are two sources of revenue limit income: local property taxes ($839.0 million) and State aid ($2,736.3 million).

15) Property Taxes – All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100% of full cash or market value (with limited exceptions) pursuant to Article XIIIA of the California State Constitution and statutory provisions. The total 2004-

2005 taxable net total assessed valuation of the District is $331,925,136,460. The District's revenue from unrestricted property taxes is included in "Revenue Limit Sources". The property tax levy to support general operations of the various jurisdictions is limited to one percent (1%) of assessed value and is distributed in accordance with statutory formulas. Amounts needed to finance the annual requirements of voter-approved debt are excluded from this limitation and are separately calculated and levied each fiscal year. The rates are formally adopted by either the County Board of Supervisors, the city council or, in some cases, the governing board of a special district.

Property taxes are levied on both real and personal property. Secured property taxes are levied on or before the first business day of September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments: the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10.

Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due; any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against the property. These taxes are due on March 1 and become delinquent, if unpaid, on August 31.

The District's share of uncollected property taxes as of June 30, 2005 amounted to $156,065,135 of which $86,483,895 is for 2003-2004 and prior fiscal years.

16) Accounting Change – GASB Statement No. 40 – On July 1, 2004, the District adopted GASB Statement No. 40, Deposit and Risk Investment Disclosures, an amendment of GASB Statement No. 3. GASB Statement No. 40 requires specific disclosures if applicable for credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It also modifies GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Purchase Agreements, related to required disclosures of custodial credit risk of deposits and investments.

17) 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 could differ from those estimates.

NOTE B – 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 September 1, 2004, the District issued $500.0 million of 2004-2005 Tax and Revenue Anticipation Notes (TRANs) at a net premium of $11.2 million to yield approximately 1.498% on $158.0 million Series A-1, 1.505% on $292.0 million Series A-2 and 1.495% on $50.0 million Series A-3. These notes were retired on their due date of September 1, 2005.

On October 12, 2005, the District issued a total of $410.0 million of 2005-2006 TRANs with an overall weighted true interest cost of 2.90017% or total premium of $5.6 million. The principal and interest on the notes are payable at maturity on October 18, 2006. 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: $143.5 million on or before January 26, 2006; $143.5 million on or before February 7, 2006; $123.0 million on or before April 28, 2006; plus an amount sufficient to pay interest on the notes and any deficiency in the amount required to be transferred during any prior month, on or before June 30, 2006.

TRANs – Short-Term Notes Payable (Principal only, in thousands)	
Beginning Balance, July 1, 2004	$ 670,000
Additions	500,000
Deductions	(670,000)
Ending Balance, June 30, 2005	$ 500,000

NOTE C – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1) 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 $5,178,085 difference are as follows (in thousands):

Bonds payable	$4,479,633
Certificates of Participation (COPs)	615,396
State school building fund aid payable	1,219
Capital leases payable	9,952
Children center facilities revolving loan	792
Children center revolving loan not yet collected	518
CEC loan payable	1,379
Compensated absences	73,910
Others	144
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$5,182,943

2) 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 $1,086,758 difference are as follows (in thousands):

Capital outlay	$1,398,244
Depreciation expense and loss on disposal	(311,486)
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$1,086,758

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 $110,581 difference are as follows (in thousands):

General obligation bonds	$ 46,695
Certificates of participation	57,924
Capital leases	5,518
State school building aid fund payable	444
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ 110,581

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	$ 200,000
Bond issuance that refunded bonds	219,125
Certificates of participation	209,715
Unamortized deferred premium and cost of issuance	22,417
CA Energy Commission loan	1,318
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ 652,575

Details of payments to escrow agents of refunded debt:

Payment to bond escrow agent:	
Principal of refunded debt	$ 215,680
Deferred charge – bond refunding	18,446
	$ 234,126
Payment to COPs escrow agent	
Principal of refunded debt	$ 300,028
Interest expense	19,775
Deferred charge – bond refunding	14,155
	$ 333,958

NOTE D – BUDGETARY APPROPRIATION AMENDMENTS

During the fiscal year, modifications were necessary to increase appropriations for expenditure and other financing uses for the General Fund by $193.4 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the general fund budget.

NOTE E – CASH AND INVESTMENTS (in thousands)

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 3,745,748
Cash and investments held by trustee	260,883
Subtotal	4,006,631
Fiduciary funds:	
Cash and investments	39,993
Total cash and investments	$ 4,046,624

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand (cafeteria change funds)	$ 71
Deposits with financial institutions (a)	3,219,903
Investments (b)	826,650
Total cash and investments	$ 4,046,624

(a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund ($2,927,026), cash held by fiscal agents or trustees ($260,883), cash deposited with various other financial institutions, including imprest funds in schools and offices ($31,994).

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 Tax and Revenue Anticipation Notes (TRANs) ($518,920), sinking funds invested by trustees of certificates of participation ($10,264), specific purpose investments arranged by the District with the County Treasurer for internal service funds that are not needed for daily operations ($297,051) and investment in fiduciary funds ($415).

Of the funds set aside in the TRANs repayment account, $515,000 is covered by a guaranteed investment contract (GIC) with an interest rate of 2.287% and a maturity date of August 30, 2005. The GIC which is about 35.0% of the County's non-pooled investments is not rated.

Except for investments by trustees of certificates of participation (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 US 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 - US 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/counterparty
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 US 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, 2005, over 89% 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, 2005, 67% 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, 2005:

Investment Description	Maturity	Value
Toyota Motor Credit CP	07/18/05	$ 10,000
G.E. Capital Corp. CP	07/18/05	15,000
HSBC Bank USA CD	07/18/05	10,000
Deutsche Bank AG NY CD	07/19/05	15,000
Bank of America Bank Note	10/17/05	15,000
BNP Paribas SF CD	10/17/05	10,000
Barclays Bank PLC NY CD	10/18/05	10,000
Lloyds Bank PLC NY CD	10/19/05	15,002
Federal Farm Credit Banks Discount Note	12/14/05	9,788
Rabobank Nederland NV NY CD	01/20/06	15,001
Federal Farm Credit Banks Discount Note	01/25/06	24,372
U.S. Treasury Note 1.5%	03/31/06	19,737
Freddie Mac Discount Note	04/04/06	29,020
Federal Home Loan Banks 3.25%	07/21/06	29,886
U.S. Treasury Note 2.75%	07/31/06	19,860
U.S. Treasury Note 2.375%	08/31/06	24,699
U.S. Treasury Note 2.5%	10/31/06	24,686
Total		$ 297,051

As of June 30, 2005, investments held by trustee are shown below:

AIG Funding Inc. Disc. C/P Cpds.	08/23/05	$ 10,264

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. 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, 2005, the County did not exceed these limitations.

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, 2005:

Workers' Compensation Fund Investments

	S & P	Moody's	% of Portfolio
Toyota Motor Credit CP	AAA	Aaa	3.37%
G.E. Capital Corp. CP	AAA	Aaa	5.05%
HSBC Bank USA CD	A+	Aa3	3.37%
Bank of America Bank Note	AA	Aa1	5.05%
Barclays Bank PLC NY CD	AA	Aa1	3.37%
Deutsche Bank AG NY CD	AA-	Aa3	5.05%
BNP Paribas SF CD	AA	Aa2	3.37%
Lloyds Bank PLC NY CD	AA	Aaa	5.05%
Rabobank Nederland NV NY CD	AAA	Aaa	5.05%
FFCB Discount Note	AAA	Aaa	8.20%
Freddie Mac Discount Note	AAA	Aaa	9.77%
FHLB 3.25%	AAA	Aaa	10.06%
FFCB Discount Note	AAA	Aaa	3.29%
U.S. Treasury Note 1.5%	AAA	Aaa	6.64%
U.S. Treasury Note 2.75%	AAA	Aaa	6.69%
U.S. Treasury Note 2.375%	AAA	Aaa	8.31%
U.S. Treasury Note 2.5%	AAA	Aaa	8.31%
Total			100.00%

Investments Held by Trustee

	S & P	Moody's	% of Portfolio
AIG Funding Inc. Disc. C/P Cpds.	A-1	P-1	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.

NOTE F – RECEIVABLES/PAYABLES

Receivables by Fund at June 30, 2005 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Taxes	$ 132,933	$ -	$ 23,132	$ -	$ 156,065
Accrued state revenues	358,871	-	3,451	-	362,322
Accrued federal revenues	99,766	-	61,133	-	160,899
Specially funded grants	88,462	-	7,153	-	95,615
Other	10,753	9,900	44,329	1,229	66,211
Interest and dividend	5,508	13,167	2,480	3,644	24,799
Total receivables*	$ 696,293	$ 23,067	$ 141,678	$ 4,873	$ 865,911

*Does not include $12 receivable of these funds from fiduciary funds.

Payables by Fund at June 30, 2005 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	$ 267,832	$ 65,347	$ 28,425	$ 26,268	$ 387,872
Contracts	2,669	124,694	34,824	-	162,187
Accrued payroll*	246,644	2,461	16,560	733	266,398
Other*	115,438	14,829	40,058	823	171,148
Total payables	$ 632,583	$ 207,331	$ 119,867	$ 27,824	$ 987,605

*Excludes adjustment in government-wide statement of net assets for accrued payroll ($2,158) and other ($665).

NOTE G – CAPITAL ASSETS

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

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Sites	$ 1,671,373	$ 134,338	$ -	$ 1,805,711
Construction in progress	1,745,176	1,227,411	(372,112)	2,600,475
Total capital assets, not being depreciated	3,416,549	1,361,749	(372,112)	4,406,186
Capital assets, being depreciated:				
Improvement of sites	344,671	1,054	-	345,725
Buildings and improvements	2,725,055	379,329	-	3,104,384
Equipment	1,087,143	28,224	(20,535)	1,094,832
Total capital assets, being depreciated	4,156,869	408,607	(20,535)	4,544,941
Less accumulated depreciation for:				
Improvement of sites	(234,873)	(8,577)	-	(243,450)
Buildings and improvements	(1,180,615)	(99,644)	-	(1,280,259)
Equipment	(785,530)	(203,218)	20,488	(968,260)
Total accumulated depreciation	(2,201,018)	(311,439)	20,488	(2,491,969)
Total capital assets, being depreciated, net	1,955,851	97,168	(47)	2,052,972
Governmental activities capital assets, net	$ 5,372,400	$1,458,917	$(372,159)	$ 6,459,158

Certain 2004 balances were reclassified to conform to the 2005 presentation based on a new fixed asset system implemented by the District. The reclassification did not have a material impact on the District's financial statements.

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction	$ 6,870
Support services – students	239
Support services – instructional staff	7,414
Support services – general administration	367
Support services – school administration	5,911
Support services – business	4,673
Operation and maintenance of plant services	6,223
Student transportation services	4,616
Data processing services	168,529
Operation of non-instructional services	1,571
Depreciation – unallocated	105,026
Total depreciation expense – governmental activities	$ 311,439

NOTE H – 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) and 2) the State Teachers' Retirement System (STRS); the retirement plan administered under a Trust is 3) the Public Agency Retirement System (PARS); and 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.

1) 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 7.0% (miscellaneous) or 9.0% (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 2004-2005 were 9.952% for miscellaneous and 41.686% for safety members. The District paid the employee's contribution of 9.0% for 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, 2005, 2004 and 2003.

Schedule of Employer Contributions:

	2005		2004	2003
	Safety	Miscellaneous	Safety and Miscellaneous	Safety and Miscellaneous
District Contributions:				
Regular	$ 7,903,980	$ 95,370,582	$102,600,896	$ 30,403,652
Annual Savings Recapture – AB 702 Credits	(5,422,476)	17,648,416	12,112,116	61,531,023
Total District Contributions	2,481,504	113,018,998	114,713,012	91,934,675
Employee Contributions:				
Paid by Employees	278,407	47,225,194	47,319,252	46,982,226
Paid by District	1,421,935	19,249,567	19,615,312	19,129,321
Total Employee Contributions	1,700,342	66,474,761	66,934,564	66,111,547
Total CalPERS Contributions	$ 4,181,846	$179,493,759	$181,647,576	$158,046,222
Percentage of Required Contributions Made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2005, 2004 and 2003 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, 2003*
Actuarial Cost Method:	Individual Entry Age Normal Cost
Amortization Method:	Level Percentage of Payroll Closed
Remaining Amortization Period:	17 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

*2004 and 2005 are not available.

[1]Includes inflation at 3.0%.

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

Actuarial Valuation Date	6/30/03	6/30/02	6/30/01
Actuarial Value of Assets	$ 158,596	$ 156,067	$ 166,860
Less: Actuarial Accrued Liability (AAL) Entry Age	180,922	163,961	149,155
Unfunded AAL (UAAL)	22,326	7,894	(17,705)
Funded Ratios	87.7%	95.2%	111.9%
Annual Covered Payroll	$34,784	$32,873	$30,802
UAAL as a % of Covered Payroll	64.2%	24.0%	-57.5%

2) 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, 2004, there were approximately 1,200 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 8.0% 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 2004-2005 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, 2005, 2004 and 2003 are as follows:

	% of Applicable Member Earnings	2005	2004	2003
District Contributions	8.25%	$245,259,118	$241,241,462	$236,960,989
Employee Contributions (Including Adjustments)	8.00%	251,139,401	231,916,278	229,478,875
Total STRS Contributions	16.25%	$496,398,519	$473,157,740	$466,439,864

The District's contributions to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 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%	8.00%
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:

Schedule of Funding Progress - Defined Benefit Program (unaudited)

Actuarial Valuation Date	6/30/04	6/30/03	6/30/02
Actuarial Value of Assets	$ 114,094	$ 108,667	(1)
Less: Actuarial Accrued Liability (AAL)	138,254	131,777	(1)
Unfunded AAL (UAAL)	$ 24,160	$ 23,110	(1)
Funded Ratios	83%	82%	(1)
Annual Covered Payroll	$ 23,766	$ 23,862	(1)
UAAL as a % of Covered Payroll	102%	97%	(1)

(1) No actuarial valuation prepared for FY 2002

Schedule of Funding Progress - Defined Benefit Supplemental Program (unaudited)

Actuarial Valuation Date	6/30/04	6/30/03	6/30/02
Actuarial Value of Assets	$ 2,204	$ 1,311	$ 660
Less: Actuarial Accrued Liability (AAL)	2,035	1,358	711
Unfunded AAL (UAAL)	$ (169)	$ 47	$ 51
Funded Ratios	108%	97%	93%
Annual Covered Payroll	$ 23,763	$ 23,865	$ 21,732
UAAL as a % of Covered Payroll	-1%	0.20%	0.23%

The State's contribution to the system for fiscal year 2004 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.

3) 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 number 41,816 as of June 30, 2005. District's contributions to the plan for the last three fiscal years are as follows: 2004-2005 - $6,635,829, 2003-2004 - $7,117,416 and 2002-2003 - $7,410,657.

The District's contributions for the fiscal years ended June 30, 2005, 2004 and 2003 were equal to the required contributions.

4) 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, 2005, approximately 33,645 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, 2005 amounted to $196,068,525.

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 latest available actuarial study as of July 1, 2004, 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, 2004, is as follows (in thousands):

All retirees	$2,146,119
Active employees	2,749,831
	$4,895,950

In November 2005, the District commissioned a second actuarial study to be completed in Spring 2006 using currently available data. The District has been and 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.

5) 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.

NOTE I – 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 $750 million coverage above a $0.5 million self-insurance retention and for general liability, which currently provides $35 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, 2005.

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 and excess liability coverage with limits of $102 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 $30 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, 2005, the amount of the total claims liabilities recorded for medical, dental, liability and workers' compensation was $751.2 million. During the fiscal year, the District recorded workers' compensation claims liability that reflected improved benefit levels, accelerated rate of claims closure and changes in certain estimates including a lower discount rate of 3% versus 5% used in fiscal year 2003-2004. These changes account for $117.2 million of the $175.5 million increase in the workers' compensation liability in fiscal year 2004-2005. Changes in the reported liabilities since July 1, 2003 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
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
TOTAL	$568,732,518	$541,517,117	$(359,077,470)	$751,172,165
2003-2004				
Health and Welfare Benefits	$ 30,660,133	$233,598,334	$(228,372,918)	$ 35,885,549
Workers' Compensation	429,262,180	204,222,201	(123,678,692)	509,805,689
Liability Self-Insurance	20,760,813	11,497,692	(9,217,225)	23,041,280
TOTAL	$480,683,126	$449,318,227	$(361,268,835)	$568,732,518

NOTE J – 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 Belmont Learning Complex (now known as Vista Hermosa). These liabilities qualify as capital lease obligations in accordance with FASB 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

Description	2006	2007	2008	2009	2010	2011-2015	2016-2020	2021-2025	2026-2030	2031-2032	Total	Less: Interest	Future Minimum Lease Payment
1997 COPs Vista Hermosa (formerly Belmont Lrng Ctr)	$ 6,836	$ 6,858	$ 6,871	$ 6,875	$ 6,773	$ 33,655	$ 19,942	$ -	$ -	$ -	$ 87,810	$ 20,386	$ 67,424
1998 Refunding of 1993 Ref. COPs	5,435	5,432	5,420	5,413	5,418	21,607	-	-	-	-	48,725	9,050	39,675
2000A COPs QZABs	-	-	-	-	-	25,372	-	-	-	-	25,372	-	25,372
2000B COPs Multiple Properties Project	4,684	4,132	4,121	1,133	1,129	1,128	-	-	-	-	16,327	1,281	15,046
2001B COPs Beaudry	-	3,445	3,444	3,445	3,444	17,223	17,222	23,863	52,589	20,960	145,635	75,876	69,759
2002A COPs Bravo Refunding	3,745	3,743	3,749	-	-	-	-	-	-	-	11,237	996	10,241
2002B COPs Multiple Properties Project	24	2,443	7,469	12,041	12,035	27,796	4,893	2,923	-	-	69,624	12,734	56,890
2002C COPs Beaudry II	-	604	604	602	606	3,018	3,002	2,995	2,977	1,187	15,595	6,544	9,051
2003A COPs Multiple Properties Project	-	14,639	14,629	14,608	13,135	28,961	3,395	2,890	762	-	93,019	12,646	80,373
2003B COPs Pico Rivera Warehouse	-	2,163	2,161	2,163	2,159	10,772	10,704	10,657	8,488	-	49,267	18,667	30,600
2004A COPs Refinancing & Multi Prop Project	1,955	1,956	1,955	2,709	9,361	46,791	-	-	-	-	64,727	13,544	51,183
2004B COPs Refinancing & Multi Prop Project	294	294	295	7,072	-	-	-	-	-	-	7,955	957	6,998
2005ACOPs Beaudry I -2001C COPs refunding	2,250	2,639	2,639	6,775	6,775	33,995	34,201	27,729	-	-	117,003	30,018	86,985
2005B COPs Beaudry III	555	651	1,207	1,210	1,212	6,069	6,089	6,124	6,161	2,474	31,752	10,357	21,395
2005C COPs ELA/King Drew-1996A COPs Refunding	1,509	1,560	1,349	1,349	1,349	12,233	20,558	20,695	4,157	-	64,759	20,355	44,404
TOTAL	$27,287	$50,559	$55,913	$65,395	$63,396	$268,620	$120,006	$97,876	$75,134	$24,621	$848,807	$233,411	$615,396

COPs 1996 Series A (ELA/King Drew) was refunded by COPs 2005 Series C on May 6, 2005. Series B was paid off at maturity on October 1, 2003.

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 semi-annually 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 deposits 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 semi-annually ranging from 4.00% to 5.50% with annual principal payments through 2010. The proceeds are to pay for Internet connectivity, portable classrooms, air conditioning projects, sports facility improvements and construction at adult schools.

COPs 2001 Series A (Land Acquisition I) was paid in full in February 2005.

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 semi-annually at 5.00%. Principal payments are due annually beginning 2024 through 2031. This series was issued to pay for improvements at the District's new administration building.

COPs 2001 Series C (Beaudry I) was refunded in May 2005 by COPs 2005 Series A.

COPs 2001 Series D (Land Acquisition II) was paid in full in February 2005.

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 semi-annually 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 semi-annually ranging from 2.00% to 5.00%. Principal payments are due semi-annually through 2022. This series was issued to finance the following projects: auditorium and gymnasium air-conditioning, 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.

On December 5, 2002, the District issued COPs 2002 Series C (Beaudry II) in the amount of $9,490,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. Principal payments are due annually through 2031. The proceeds are to fund tenant improvements and HVAC upgrades for the 12th floor and painting and lighting upgrades of the garage of the Administration Building.

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 semi-annually ranging from 2.00% to 5.00%. Principal payments are due semi-annually through 2028.

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

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 semi-annually 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 certificates of participation. 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.

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 semi-annually 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.

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 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, 2005 was 2.35%.

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, 2005 was 2.25%. 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).

Of the proceeds from the refunding COPs issued in fiscal year 2004-2005, payments to the COPs escrow agent totaled $184.0 million that refunded $156.6 million of old COPs issues. The 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 $27.4 million of which $14.4 million has been amortized during fiscal year 2004-2005. The unamortized balance of $13.0 million is netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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 K – 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 15 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 five years. The leases expire during the next five years.

The total expenditure for all operating leases amounted to $38,883,971 in 2004-2005. The future minimum commitments for noncancellable operating lease of the District as of June 30, 2005 are as follows (in thousands):

Fiscal Year Ending	Amount
2006	$ 30,467
2007	17,703
2008	15,152
2009	13,499
2010	12,295
2011-2015	29,849
2016-2020	8,374
	$ 127,339

NOTE K – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2005 (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, 2004	$4,328,210	$ 1,602	$ 77,313	$ 778,431	$ 792	$ -	$ 568,732	$5,755,080
Additions in 2004-2005	446,400	61	73,469	217,307	-	1,379	541,517	1,280,133
Deductions in 2004-2005	(294,977)	(444)	(74,716)	(370,391)	-	-	(359,077)	(1,099,605)
Balances at June 30, 2005	$4,479,633	$ 1,219	$ 76,066	$ 625,347	$ 792	$ 1,379	$ 751,172	$5,935,608
Due within one year	$ 74,995	$ 383	$ 1,952	$ 24,906	$ 79	$ 177	$ 236,143	$ 338,635
Interest expense in 2004-2005	$ 217,644	$ 61	$ -	$ 31,728	$ -	$ 61	$ -	$ 249,494

*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
2006	$ 74,995	$(17,935)	$ 222,415	$ 24,906	$ 7,583	$ 639	$ 111	$ 100,540	$(17,935)	$ 230,109
2007	104,160	(5,250)	218,361	30,371	23,770	536	90	135,067	(5,250)	242,221
2008	112,740	2,811	213,711	36,102	21,947	557	69	149,399	2,811	235,727
2009	122,170	2,013	208,470	46,494	19,948	546	45	169,210	2,013	228,463
2010	132,070	1,145	202,920	45,628	17,884	283	23	177,981	1,145	220,827
2011-2015	624,685	6,516	928,604	204,806	63,814	829	21	830,320	6,516	992,439
2016-2020	977,855	4,319	723,339	80,250	39,757	-	-	1,058,105	4,319	763,096
2021-2025	1,482,645	839	409,106	70,930	27,115	-	-	1,553,575	839	436,221
2026-2030	853,640	215	67,147	62,380	13,809	-	-	916,020	215	80,956
2031-2032	-	-	-	23,480	1,640	-	-	23,480	-	1,640
	$4,484,960	$ (5,327)	$3,194,073	$625,347	$237,267	$3,390	$ 359	$5,113,697	$ (5,327)	$3,431,699

The General Obligation Bonds balance of $4,479,633,000, which is net of unamortized bond premiums and discounts of $5,327,000, 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 bonds: Series "A" bonds, sold in February 2003 at $2.1 billion par value; (c) four issuances of Measure R sold in September 2004: Series "A" 2004 bonds at $72.6 million par value, Series "B" 2004 bonds at $60.5 million par value, Series "C" bonds at $50 million par value and Series "D" 2004 bonds at $16.9 million par value, all of which, except for Series C, were used to partially and fully refund certain certificates of participation and (d) general obligation refunding bonds Series "A-1" and "A-2" sold in December 2004 at $219.1 million par value that were used to partially refund certain Proposition BB bonds Series A, C, D and E as stated above.

As mentioned above, the District issued $150.0 million of Measure R general obligation bonds to refund $143.4 million of certificates of participation and $219.1 million of general obligation refunding bonds to refund $215.7 million of Proposition BB 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 $6.6 million and $18.4 million, respectively, of which $5.4 million has been amortized during fiscal year 2004-2005 for the COPs refunding. The unamortized balance of $1.2 million and $18.4 million is netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

The $150.0 million advance refunding was undertaken to reduce General Fund debt service payments over the next four years by $155.9 million, but increased total debt service payments by $16.3 million over the next five years and thus resulted in an economic loss of $16.5 million.

The $219.1 million advance refunding was undertaken to reduce total debt service payments over the next 18 years by $10.6 million and resulted in an economic gain of $7.8 million.

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, the first 4 series of which were issued in September 2004 at an aggregate principal amount of $200.0 million. 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 $1.2 million at June 30, 2005 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.

Certificates of Participation and other capital leases are described in Note J.

The Children Center Facilities Fund Revolving loan represents loan proceeds from the State Child Development Revolving Fund for the purchase of relocatable buildings, sites and site improvements for child care facilities. The loan, which does not incur interest charges, must be repaid in ten years. Annual repayment will begin when the full amount of the loan is received. The District's policy relating to accumulated vacation leave is described in Note A. The liability for earned vacation benefits at June 30, 2005 for all funds amounted to $76.07 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. 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.

NOTE L – INTERFUND TRANSACTIONS

1) 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, 2005 (in thousands):

Fund Group:	Fund	Interfund Receivables	Interfund Payables
General:	Unrestricted	$ 584,730	$ 463,758
	Restricted	271,436	425,164
	Total General	856,166	888,922
Special Revenue:	Adult Education	7,105	23,012
	Cafeteria	1,528	30,208
	Child Development	11,164	8,856
	Deferred Maintenance	1	455
	Total Special Revenue	19,798	62,531
Debt Service:	Tax Override	2	-
	Capital Services	33,305	39,940
	Total Debt Service	33,307	39,940
Capital Projects:	Building	41	-
	District Bonds	425,476	387,981
	State School Building Lease – Purchase	16	7
	Special Reserve	110,354	45,524
	Special Reserve – FEMA-Earthquake	7,179	6,563
	Special Reserve – FEMA-Hazard Mitigation	5,094	5,469
	Special Reserve – CRA	995	-
	Capital Facilities Account	4,801	6,156
	State Bonds	79	19,720
	Total Capital Projects	554,035	471,420
Internal Service:	Health and Welfare Benefits	4,348	34,053
	Workers' Compensation Self-Insurance	16,421	2,659
	Liability Self-Insurance	17,728	2,266
	Total Internal Service	38,497	38,978
Pension Trust:	Attendance Incentive Reserve	5	17
	Total Interfund Receivables/Payables	$ 1,501,808	$ 1,501,808

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.

2) 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, 2005 were as follows (in thousands):

From	To	Purpose	
General	Child Development	Support to Child Development	$ 8,065
General	Special Reserve	Certificates of Participation Proceeds	84,514
General	Special Reserve	Deferred Maintenance Allowance 2006	26,026
General	Deferred Maintenance	Deferred Maintenance Allowance 2005	23,300
General	Special Reserve – Hazard Mitigation	Energy Savings	2,225
General	Capital Services	Debt Service	198,026
General	District Bonds	Unused cost of issuance account	59
Child Development	General	Routine Repair and Maintenance contribution	2,100
Special Reserve	General	Funding for deferred maintenance	17,155
Special Reserve	Capital Services	Debt Service	28,800
SR-FEMA-Earthquake	General	Reimbursement of administrative expenses	213
Cafeteria	General	Flexibility transfer	1,251
District Bonds	Capital Services	Debt Service	149,995
SR-Hazard Mitigation	General	Reimbursement of administrative expenses	149
Capital Services	General	Debt Service adjustment	1,225
Capital Services	General	Funding for deferred maintenance	6,145
Capital Services	Special Reserve	Funding for deferred maintenance	17,155
Capital Facilities	Capital Services	Debt Service	24,045
Capital Facilities	State School Building – Lease Purchase	District match requirement	7,613
Sub-total			598,061
Adult Education	General	Transfer of support costs	6,109
Total			$604,170

NOTE M – FUND EQUITY

1) Governmental Fund Types

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2005 (in thousands):

	General Fund	District Bonds	Other Governmental Funds
RESERVED FOR			
Revolving and Imprest Funds	$ 2,753	$ 3,000	$ 178
Inventories	23,314	-	7,693
Debt Service	-	-	224,398
Prepaid Expenditures	-	4,328	-
General Reserve	1	-	-
Medi-Cal Billing Options	5,352	-	-
Cops More Program	35	-	-
Cal-Safe Supportive Services	163	-	-
Class Size Reduction – Facilities	2,153	-	-
School Facilities Needs Assessment Program	4,934	-	-
Certificated Staff Performance Incentive Bonus	173	-	-
English Language Acquisition Program, Teacher Training & Student Assistance	5,717	-	-
Calif. Public School Library Act of 1998	3,810	-	-
Lottery: Instructional Material	6,511	-	-
School Safety and Violence Prevention	2,781	-	-
Special Education Low Incidence	2,240	-	-
Gifted and Talented Education	504	-	-
Instructional Materials Block Grant	5,491	-	-
Instructional Materials: English Language Learners	6,000	-	-
Instructional Materials: API Deciles 1 & 2	9,992	-	-
CA Peer Assistance & Review Program for Teachers	2,756	-	-
Staff Development Reading & Math	4,924	-	-
Principal Training	1,921	-	-
Tenth Grade Counseling	578	-	-
CA Energy Commission Loan Expenditures	339	-	-
Certificates of Participation – (Acquisition Accounts) – Proceeds	3,045	-	-
Specially Funded Programs	1,053	-	-
TOTAL RESERVED FUND BALANCES	96,540	7,328	232,269
DESIGNATED FOR			
Subsequent Year Expenditures	119,626	1,123,595	829,126
Economic Uncertainties	33,269	-	-
TOTAL DESIGNATED FUND BALANCES	152,895	1,123,595	829,126
UNDESIGNATED FUND BALANCES	100,134	-	8,341
TOTAL FUND BALANCES	$ 349,569	$ 1,130,923	$ 1,069,736

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.

2) 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, 2005 (in thousands):

	Internal Service Funds	Pension Trust Funds
RESERVED NET ASSETS		
Revolving and Imprest Funds	$ 2,500	$ -
Prepaid Expenditures	16,390	-
Participants' Equity	-	445
TOTAL RESERVED NET ASSETS	18,890	445
DEFICIT	(290,604)	-
UNDESIGNATED NET ASSETS	432	-
TOTAL NET ASSETS (DEFICIT) – unrestricted	$ (271,282)	$ 445

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

NOTE N – CONTINGENCIES

1) 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 non-compliance 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.

2) 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.

3) VISTA HERMOSA (FORMERLY THE "BELMONT LEARNING COMPLEX") – In 1997, the District commenced the development of the Belmont Learning Complex, a large-scale urban high school complex that was envisioned to include a mixed-use commercial component. In January 2000, due to environmental concerns, the District's Board of Education directed that construction on the Belmont Learning Complex be halted and the project cancelled. The Board also directed the staff to prepare recommendations for the future use of the site and the partially constructed facility and a plan for the housing of the students who were scheduled to attend a completed Belmont facility. Subsequently, the Board requested and received proposals for the use of the property, including completion of the school. These proposals were evaluated by an independent panel of environmental, construction finance and insurance experts, who together with the Superintendent identified the preferred bidder. The Board approved the recommendations made by the expert panel and the Superintendent subject to satisfactory negotiations and implementation of various oversight procedures. Due to the discovery of an earthquake fault zone under the site, the District decided on December 4, 2002 not to continue efforts to complete the Belmont Learning Complex on its original design. On May 22, 2003, the District approved the "Vista Hermosa" option to complete the Belmont Learning Complex. Construction will proceed to build a park and a new high school with 2,835 student seats in an extremely overcrowded area. Two buildings on top of the seismic fault will be demolished.

4) 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, 2005. 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 2004-05 the District entered into approximately 470 contracts with a combined value of $1.2 billion. The durations of the contracts range from one week to three years.

NOTE O – 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 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 Obligations 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 Citizen's Oversight Committee consists of 15 members representing governmental entities, agencies and organizations. As of October 31, 2005, a total of 11,872 projects funded by BB Bonds have been completed or are in process, as follows: air conditioning, 632; State Matching Funds – new construction, 76; State Matching Funds – modernization construction, 660; portables – class size reduction, 510; portables – enrollment growth, 294; new schools/centers – class size reduction, 42; opening of closed schools – class size reduction, six; safety and technology, 855 and miscellaneous small projects, 8,797.

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.

NOTE P – 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 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'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 Obligations 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. 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 million 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.

NOTE Q – STATE SCHOOL FACILITIES BONDS

Proposition 1A and Proposition 47 – Proposition 1A was approved in November 1998 and provided $6.7 billion of capital funding for 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).

Proposition 55 – Proposition 55 was passed and approved in March 2004 and provided an additional $12.3 billion in general obligation bonds for the construction and renovation of K-12 school facilities and higher education facilities. Of the $12.3 billion provided by the Proposition 55, $10 billion will be utilized by school districts to address overcrowding, accommodate future enrollment growth, renovate and modernize older school buildings and allow participation in community related joint use projects.

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).

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APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the District takes no responsibility for the completeness or accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. 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 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, ("NSCC," "FICC" 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, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 confirmations 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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 the Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Resolutions and will not be conducted by the District or the Paying Agent.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds 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 District or the Paying Agent, on payable date 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), the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, 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.

NEITHER THE DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Resolutions will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the District or the Paying Agent take any responsibility for the accuracy thereof.

The District and the Underwriters do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal, interest or premium, if any, on the Bonds paid to DTC or its nominee, as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement. Neither the District nor the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX D-1

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Measure Y Bonds, Bond Counsel, proposes to render its final approving opinion with respect to the Measure Y Bonds in substantially the following form:

[Closing Date]

Board of Education
Los Angeles Unified School District
Los Angeles, California

LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$__________
General Obligation Bonds
Election of 2005

Consisting of

$________	$________	$________	$________
Series A (2006)	Series B (2006)	Series C (2006)	Series D (2006) (Taxable)

Members of the Board of Education:

We have acted as bond counsel to the Los Angeles Unified School District in connection with the issuance of $__________ Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series A (2006) (the “Series A Bonds”), $__________ Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series B (2006) (the “Series B Bonds”), $__________ Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series C (2006) (the “Series C Bonds,” and together with the Series A Bonds and the Series B Bonds, the “Tax-Exempt Bonds”) and $__________ Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series D (2006) (Taxable) (the “Series D Bonds” and collectively with the Tax-Exempt Bonds, the “Bonds”) as authorized by Title 1, Division 1, Part 10, Chapter 1.5 of the California Education Code, a 55% vote of the qualified electors of the Los Angeles Unified School District (the “District”) voting at an election held on November 8, 2005, and a resolution adopted by the Board of Education of the District on January 10, 2006 (the “District Resolution”) and a resolution of the Board of Supervisors of the County of Los Angeles on January 31, 2006 (the “County Resolution” and collectively with the District Resolution, the “Resolution”).

In our capacity as bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. 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 verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents and certificates that we reviewed are genuine.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. The Bonds constitute valid and binding general obligations of the District, payable solely from the proceeds of the levy of ad valorem taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. Assuming continuing compliance by the District with certain covenants in the District Resolution, the County Resolution and other documents pertaining to the District's general obligation bonds and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Tax-Exempt Bonds is not includable in the gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes. Failure of the District to comply with such covenants and requirements may cause interest on the Tax-Exempt Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.

3. Interest on the Tax-Exempt Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Tax-Exempt Bonds is, however, included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

4. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. Specifically, we are rendering no opinion as to the exclusion from gross income of the interest on the Tax-Exempt Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to certain requirements and procedures contained in the Resolution and other relevant documents upon the approval of counsel other than ourselves.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights, 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 school districts in the State of California.

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 or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

APPENDIX D-2

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series A Refunding Bonds, Bond Counsel, proposes to render its final approving opinion with respect to the Series A Refunding Bonds in substantially the following form:

[Closing Date]

Board of Education
Los Angeles Unified School District
Los Angeles, California

$_____________
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2006 General Obligation Refunding Bonds
Series A

Members of the Board of Education:

We have acted as bond counsel to the Los Angeles Unified School District (the "District") in connection with the issuance of $___________ Los Angeles Unified School District (County of Los Angeles, California) 2006 General Obligation Refunding Bonds, Series A (the "Bonds") as authorized by Title 5, Division 2, Part 1, Chapter 3, Article 9 and Article 11 of the California Government Code, and a resolution adopted by the Board of Education of the District on June 14, 2005 (the "District Resolution").

In our capacity as bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. 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 verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents and certificates that we reviewed are genuine.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. The Bonds constitute valid and binding general obligations of the District, payable solely from the proceeds of the levy of ad valorem taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. Assuming continuing compliance by the District with certain covenants in the District Resolution and other documents pertaining to the District's general obligation bonds and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure of the District to comply with such covenants and requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.

3. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Bonds is, however, included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

4. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. Specifically, we are rendering no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to certain requirements and procedures contained in the District Resolution and other relevant documents upon the approval of counsel other than ourselves.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights, 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 school districts in the State of California.

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 or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

APPENDIX E

PROPOSED 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 $56,785,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series A (2006)," $80,200,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series B (2006)," $210,000,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series C (2006)," and $47,400,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series D (2006)" (collectively, the "Measure Y Bonds") and $132,325,000 aggregate principal amount of "Los Angeles Unified School District 2006 General Obligation Refunding Bonds, Series A" (the "Series A Refunding Bonds" and, together with the Measure Y Bonds, the "Bonds"). The Measure Y Bonds are being issued pursuant to a resolution (the "Measure Y Resolution") adopted by the Board of Supervisors of the County of Los Angeles (the "County") on January 31, 2006, at the request of the Board of Education of the District by its resolution adopted on January 10, 2006. The Series A Refunding Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on June 14, 2005 (the "Series A Refunding Resolution" and, together with the Measure Y Resolution, the "Resolutions"). 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 Bonds 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 Resolutions, 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 Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds 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 Bonds, or if the Bonds 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.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"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 2005-2006 Fiscal Year (which is due not later than February 25, 2007), 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 Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall send 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 certifying 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, as required by this Disclosure Certificate.

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 statement 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.
- District outstanding debt.
- Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.
- Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

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 Bonds, 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 Bonds.

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 Bonds.

The District notes that items 8 and 11 are not applicable to the Bonds.

(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 Bonds pursuant to the Resolutions.

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 Bonds and the 9-digit CUSIP numbers for the Bonds 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 Bonds. If such termination occurs prior to the final maturity of the Bonds, 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 Bonds, 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 Bonds, 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 Bonds in the same manner as provided in the Resolutions for amendments to the Resolutions 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 Bonds.

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 Bonds 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 Resolutions, 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 Bonds.

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 Bonds, and shall create no rights in any other person or entity.

Dated: ______________, 2006

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: ____

Charles A. Burbridge
Chief Financial Officer

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 Bond Issue:	Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series A (2006), Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series B (2006), Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series C (2006) and Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series D (2006) Los Angeles Unified School District 2006 General Obligation Refunding Bonds, Series A
Date of Issuance:	________________, 2006

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds 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

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the "Treasurer") manages, in accordance with 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 by 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 December 31, 2005, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	$ 7.470
Schools and Community Colleges	7.862
Independent Public Agencies	1.301
Total	$16.633

Of these entities, the involuntary participants accounted for approximately 92.18%, and all discretionary participants accounted for 7.82% 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 California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 15, 2005, 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 for formal action to approve it. According to the Investment Report dated January 26, 2006, the December 31, 2005 book value of the Treasury Pool was approximately $16.633 billion and the corresponding market value was approximately $16.609 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's 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 December 31, 2005 approximately 59.83% of the pool investments mature within 60 days, with an average of 106.88 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Pool as of December 31, 2005.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	33.98%
Certificates of Deposit	21.38
Commercial Paper	37.35
Bankers Acceptances	0.00
Municipal Obligations	0.24
Corporate Notes & Deposit Notes	5.70
Asset Backed Instruments	0.00
Repurchase Agreements	1.32
Other	0.03

Effective January 1, 1996, Section 27131 of the Government Code requires all counties investing surplus funds 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 Committee, which meets quarterly, is required to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX G

FORM OF AMBAC 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.

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

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

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

President

Anne G. Gill

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

APPENDIX H

FORM OF MBIA FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to U.S. Bank National Association or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

$132,325,000
2006 General Obligation Refunding Bonds,
Series A

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this 7th day of February, 2006.

MBIA Insurance Corporation

____
President

Attest: ______________________________
Assistant Secretary

STD-R-CA-7
01/05

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LOS ANGELES UNIFIED SCHOOL DISTRICT • GENERAL OBLIGATION BONDS, ELECTION OF 2005, SERIES A (2006), SERIES B (2006), SERIES C (2006), SERIES D (2006) (TAXABLE) AND 2006 GENERAL OBLIGATION REFUNDING BONDS, SERIES A

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