NEW ISSUE – BOOK-ENTRY ONLY

Insured Ratings:	Uninsured Ratings:
Moody's: Aaa	Moody's: Aa3
S&P: AAA	S&P: AA-

(See "MISCELLANEOUS—Ratings" herein.)

DAC Bond

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the District, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."

$1,289,250,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2007 General Obligation Refunding Bonds

consisting of

$1,153,195,000 Series A-1	$136,055,000 Series A-2

Dated: Date of Delivery **Due: As shown on the inside cover**

The $1,153,195,000 Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds") and the $136,055,000 Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and collectively with the Series A-1 Bonds, the "Bonds") are general obligation refunding bonds issued by the Los Angeles Unified School District (the "District"). The Board of Supervisors of the County of Los Angeles 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, 2007 and semiannually thereafter on each January 1 and July 1. Principal of the Bonds is payable on the dates and in the amounts as set forth on the inside cover page hereof. The Bonds will be issued in book-entry form only, in denominations of $5,000 principal amount or any integral multiple thereof and, when issued, will be 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 Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption" herein.

The scheduled payment of principal of and interest on the Series A-1 Bonds maturing on July 1 of the years 2010 through 2024, inclusive, in the amounts set forth on the inside cover page hereof (the "FSA Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the FSA Insured Bonds by Financial Security Assurance Inc.

The scheduled payment of principal of and interest on the Series A-1 Bonds maturing on July 1, 2025 and January 1, 2028, in the amounts set forth on the inside cover page hereof (the "MBIA Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the MBIA Insured Bonds by MBIA Insurance Corporation.

The scheduled payment of principal of and interest on the Series A-2 Bonds (the "FGIC-Insured Bonds") when due will be insured by a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, concurrently with the delivery of the FGIC-Insured Bonds. See "BOND INSURANCE" herein.

FSA MBIA FGIC

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 Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Certain matters will be passed upon for the District by the District's General Counsel and its Disclosure Counsel, Sidley Austin LLP, San Francisco, California and for the Underwriters by their counsel, Nixon Peabody LLP, San Francisco, California. Tamalpais Advisors, Inc. – Kelling, Northcross & Nobriga, A Joint Venture, is serving as Financial Advisor to the District in connection with the issuance of the Bonds. The Bonds, in book-entry form, will be available for delivery through DTC in New York, New York on or about January 31, 2007.

Merrill Lynch & Co. **Goldman, Sachs & Co.**

Morgan Stanley & Co. Incorporated **Siebert Brandford Shank & Co., LLC** **Stone & Youngberg LLC**

Date of the Official Statement: January 9, 2007

$1,289,250,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2007 General Obligation Refunding Bonds

consisting of

$1,153,195,000
Series A-1

$136,055,000
Series A-2

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

$739,825,000 Serial Series A-1 Bonds
Base CUSIP Number:† 544646

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2007	$ 7,070,000	4.00%	3.48%	CW0
2008	2,965,000	4.00	3.51	CX8
2009	3,085,000	4.00	3.57	CY6
2010(1)	3,210,000	4.00	3.53	CZ3
2011(1)	3,340,000	4.00	3.58	DA7
2012(1)	3,470,000	4.00	3.60	DB5
2013(1)	3,610,000	4.00	3.64	DC3
2014(1)	3,755,000	4.00	3.69	DD1
2015(1)	3,905,000	4.00	3.73	DE9
2016(1)	4,060,000	4.00	3.80	DF6
2017(1)	4,225,000	4.00	3.84	DG4
2018(1)	4,390,000	5.00	3.85(4)	DH2
2019(1)	4,610,000	5.00	3.89(4)	DJ8
2020(1)	4,840,000	5.00	3.93(4)	DK5
2022(1)	158,000,000	4.50	4.30(4)	DM1
2023(1)	157,570,000	4.50	4.33(4)	DN9
2024(1)	183,450,000	4.50	4.35(4)	DP4
2025(2)	184,270,000	4.50	4.37(4)	DQ2

$413,370,000 4.50% Term Bond due January 1, 2028(2) — Yield 4.42%(4); CUSIP†: 544646DR0

$49,260,000 Serial Series A-2 Bonds
Base CUSIP Number:† 544646

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2021(3)	$ 5,085,000	4.50%	4.25%(4)	DS8
2022(3)	26,670,000	4.50	4.30(4)	DT6
2023(3)	17,505,000	4.50	4.33(4)	DU3

$86,795,000 4.25% Term Bonds due January 1, 2028(3) — Yield 4.43%; CUSIP†: 544646DV1

† CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. The District and the Underwriters take no responsibility for the accuracy of such data.

(1) Insured by Financial Security Assurance Inc.
(2) Insured by MBIA Insurance Corporation.
(3) Insured by Financial Guaranty Insurance Company.
(4) Priced to July 1, 2017 par call.

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.

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") and its insurance policy contained under the caption "BOND INSURANCE—FSA Insured Bonds—Financial Security Assurance Inc." and in Appendix G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICIES" herein, none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

Other than with respect to information concerning MBIA Insurance Corporation ("MBIA") and its insurance policy contained under the caption "BOND INSURANCE—MBIA Insured Bonds—MBIA Insurance Corporation" and in Appendix G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICIES" herein, none of the information in this Official Statement has been supplied or verified by MBIA and MBIA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

Other than with respect to information concerning Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("FGIC") and its municipal bond new issue insurance policy contained under the caption "BOND INSURANCE—FGIC-Insured Bonds—Financial Guaranty Insurance Company" and in Appendix G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICIES" herein, none of the information in this Official Statement has been supplied or verified by FGIC and FGIC makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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.

By placing an order for the Bonds with an Underwriter, potential investors agree that if they, in fact, purchase Bonds, the Underwriters may disclose such purchaser's identity to the District as a purchaser of the Bonds, unless such purchaser advises its sales representative otherwise.

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 INITIAL PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID INITIAL 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 HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

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

The District maintains a website. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the 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	Monica Garcia	June 30, 2009
5	David Tokofsky	June 30, 2007
6	Julie Korenstein	June 30, 2009
7	Mike Lansing	June 30, 2007

District Administrators

David L. Brewer III, Superintendent
Kevin S. Reed, General Counsel
Dan M. Isaacs, Chief Operating Officer
Charles A. Burbridge, Chief Financial Officer
Joseph A. Mehula, Chief Facilities Executive
Betty T. Ng, Controller

BOND COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

DISCLOSURE COUNSEL

Sidley Austin LLP
San Francisco, California

FINANCIAL ADVISOR

Tamalpais Advisors, Inc. – 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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$1,289,250,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2007 General Obligation Refunding Bonds

consisting of

$1,153,195,000	**$136,055,000**
Series A-1	**Series A-2**

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 through the 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 through the appendices hereto, is provided to furnish information in connection with the sale of the $1,153,195,000 Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds") and the $136,055,000 Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and collectively with the Series A-1 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 which includes residential and industrial areas. The District was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960. The District is the second largest public school district in the United States and is the largest public school district in the State of California (the "State"). Additional information on the District is provided in Appendices A and B hereto. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION" and APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

Authority and Purpose for Issuance; Purpose of the Prior Bonds

The Bonds are issued pursuant to certain provisions of the Government Code of the State and other applicable law and pursuant to a resolution adopted by the Board of Education of the District on December 12, 2006 authorizing the issuance of not to exceed $1,600,000,000 of general obligation refunding bonds (the "Resolution"). The Bonds are the first series of general obligation refunding bonds to be issued pursuant to the Resolution. A portion of the proceeds of the Bonds will be applied to advance refund and defease the following: (i) a portion of the District's outstanding general obligation bonds (the "Proposition BB Prior Bonds") that were previously issued under and in accordance with the election held on April 8, 1997 (the "Proposition BB Authorization") to authorize the issuance of bonds in an amount not to exceed $2.4 billion to finance capital improvements to school buildings and to build new schools and (ii) a portion of the District's outstanding general obligation bonds (the "Measure K Prior Bonds") that were previously issued under and in accordance with the election held on November 5, 2002 (the "Measure K Authorization") to authorize the issuance of bonds in an amount not to exceed $3.35 billion to finance capital improvements to school buildings and to build new schools (the "Measure K Prior Bonds" and together with the Proposition BB Prior Bonds, the "Prior Bonds").

The District has issued all $2.4 billion of the bonds authorized pursuant to the Proposition BB Authorization. The District has issued $2.1 billion of the bonds authorized pursuant to the Measure K Authorization and expects to issue up to $600 million of bonds pursuant to the Measure K Authorization in February 2007. The issuance of the Bonds will not change the amount of authorized but unissued bonds under the Measure K Authorization. See "PLAN OF FINANCE."

Security and Source of Payment for the Bonds

The Bonds are general obligation refunding bonds issued by 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 Series A-1 Bonds maturing on July 1 of the years 2007 through 2009, inclusive, are uninsured.

The scheduled payment of principal of and interest on the Series A-1 Bonds maturing on July 1 of the years 2010 through 2024, inclusive, in the amounts set forth on the inside cover page hereof (the "FSA Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the FSA Insured Bonds by Financial Security Assurance Inc. ("FSA").

The scheduled payment of principal of and interest on the Series A-1 Bonds maturing on July 1, 2025 and January 1, 2028, in the amounts set forth on the inside cover page hereof (the "MBIA Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the MBIA Insured Bonds by MBIA Insurance Corporation ("MBIA").

The scheduled payment of principal of and interest on the Series A-2 Bonds (the "FGIC-Insured Bonds," and together with the MBIA Insured Bonds and the FSA Insured Bonds, the "Insured Bonds") when due will be insured by a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("FGIC" and, collectively with FSA and MBIA, the "Insurers") concurrently with the delivery of the FGIC-Insured Bonds.

For a description of each of the Insurers and their policies, see "BOND INSURANCE" herein.

Other Information

This Official Statement contains brief descriptions of, among other things, the District, the Resolution 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

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 9 and Article 11, Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code, as amended, and other applicable law (the "Act"), and pursuant to the Resolution.

Purpose of Issue

A portion of the proceeds of the Bonds will be applied to advance refund and defease a portion of the Prior Bonds (the "Refunded Bonds").

The advance refunding of the Refunded Bonds will be accomplished by depositing a portion of the proceeds from the Bonds into two separate escrow funds established under an Escrow Agreement, dated January 1, 2007, by and between the District and U.S. Bank National Association, as escrow agent (the "Escrow Agent"). The amount of funds deposited into such escrow funds, 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 or pursuant to a call for redemption.

Upon the deposit into the escrow funds 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 (defined herein). See "MISCELLANEOUS—Verification Agent."

Set forth below is a description of the Refunded Bonds.

BONDS TO BE REFUNDED
Base CUSIP Number†: 544644

Prior Bonds Series	Maturity Date	Interest Rate	Principal Amount	Date of Redemption (July 1)	Redemption Price	CUSIP Suffix†
Election of 2002,						
Series A (2003)	July 1, 2022	5.00%	$ 157,870,000	2013	100%	QF7
	July 1, 2023	5.00	176,565,000	2013	100	QH3
	July 1, 2024	5.00	207,030,000	2013	100	QJ9
	January 1, 2028*	5.00	579,345,000	2013	100	QL4
		Total	$1,120,810,000			
Election of 1997,						
Series F (2003)	July 1, 2022	5.00%	$ 27,955,000	2013	100%	RE9
	July 1, 2025	5.00	32,315,000	2013	100	RJ8
	January 1, 2028**	5.00	69,240,000	2013	100	RK5
		Total	$129,510,000			

† CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. The District and the Underwriters take no responsibility for the accuracy of such numbers.

* January 1, 2028 is the final maturity date of the $579.345 million term bond.

** January 1, 2028 is the final maturity date of the $69.240 million term bond.

ESTIMATED SOURCES AND USES OF FUNDS

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

	Series A-1	Series A-2	Total
Sources of Funds			
Aggregate Principal Amount of Bonds	$1,153,195,000	$136,055,000	$1,289,250,000
Net Original Issue Premium/(Discount)	13,709,682	(1,323,979)	12,385,703
Total Sources	$1,166,904,682	$134,731,021	$1,301,635,703
Uses of Funds			
Deposit to Escrow Funds	$1,160,575,666	$134,104,850	$1,294,680,516
Underwriters' Discount	1,626,005	191,838	1,817,843
Costs of Issuance(1)	4,703,011	434,333	5,137,344
Total Uses	$1,166,904,682	$134,731,021	$1,301,635,703

(1) Includes fees of Bond Counsel, Disclosure Counsel, Paying Agent, Escrow Agent, Verification Agent and Financial Advisor, rating agency fees, printing fees, bond insurance premiums and other miscellaneous expenses.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of $1,289,250,000, 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, 2007. 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 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. If the book-entry system is discontinued, interest will be paid by (1) check 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) 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

Optional Redemption. The Bonds maturing on or before July 1, 2017, will not be subject to redemption prior to their respective stated maturity dates. The Bonds maturing on or after July 1, 2018, 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, 2017, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Series A-1 Term Bond maturing on January 1, 2028 is also subject to mandatory sinking fund redemption prior to its stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and at the times, as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2026	$199,700,000
July 1, 2027	107,230,000
January 1, 2028*	106,440,000

* Maturity

The principal amount of each Mandatory Sinking Fund Payment shown above will be reduced proportionately by the amount of the Series A-1 Term Bond (or any portion thereof) optionally redeemed prior to the mandatory redemption date.

Mandatory Sinking Fund Redemption. The Series A-2 Term Bond maturing on January 1, 2028 is also subject to mandatory sinking fund redemption prior to its stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and at the times, as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2024	$20,385,000
July 1, 2025	20,475,000
July 1, 2026	22,190,000
July 1, 2027	11,915,000
January 1, 2028*	11,830,000

* Maturity

The principal amount of each Mandatory Sinking Fund Payment shown above will be reduced proportionately by the amount of the Series A-2 Term Bond (or any portion thereof) optionally redeemed prior to the mandatory redemption date.

Selection of Bonds for Redemption. If less than all of the Bonds of a series are called for redemption, such 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 Bonds of a series are called for redemption, the portions of such Bonds of a given maturity of such series to be redeemed will be determined by lot.

Notice of Redemption. Notice of redemption of any Bond will be given by the Paying Agent. Notice of any redemption of Bonds will be mailed postage prepaid, not less than 30 or 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 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 name of the Bonds and the date of issue of the Bonds; (ii) the redemption price; (iii) the dates of maturity of the Bonds to be redeemed; (iv) if less than all of the Bonds of any maturity of a series are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed; (v) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (vi) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (vii) a statement that such 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 (viii) notice that further interest on such Bonds will not accrue after the designated redemption date. The actual receipt by the Owner of any Bond 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 Bonds or the cessation of interest on the date fixed for redemption.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Bonds called for redemption is set aside for such purpose, the 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 Bonds so called for redemption on and after such redemption date shall look for the payment of such 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 Resolution and in the Bonds, or as otherwise provided by law consistent therewith, 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 to such Owners under the Resolution 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 for the applicable series of Bonds established pursuant to the Resolution (collectively, the "Debt Service Fund") or otherwise held in trust for such payment.

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

(i) by irrevocably depositing with the Paying Agent or the County an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all 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 or the County 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 interest to accrue thereon and monies then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all 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.

Application of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be deposited in two separate escrow funds to be used to advance refund and defease the Refunded Bonds. See "PLAN OF FINANCE" herein. The remaining proceeds from the sale of the Bonds will be used to pay underwriters' discount and costs of issuance as set forth in "ESTIMATED SOURCES AND USES OF FUNDS."

Investment of the District's Debt Service Fund

Moneys in the Debt Service Fund for the Bonds will be invested by the County Treasurer in the Los Angeles County Treasury Pool pursuant to the County's Investment Policy. See APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL."

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Description

The Bonds are general obligation refunding bonds issued by 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 Fund, which is required to be maintained by the County, and such taxes will be used solely for the payment of principal of and interest on the Bonds.

Fiscal Year Debt Service

The following table 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."

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

		The Bonds										
		Series A-1 Bonds			Series A-2 Bonds			Aggregate (Series A-1 Bonds and Series A-2 Bonds)				
Payment Date	Outstanding General Obligation Bonds[(1)]	Principal	Interest	Bond Debt Service	Principal	Interest	Bond Debt Service	Principal	Interest	Semi-Annual Debt Service	Aggregate Semi Annual Total	Aggregate Annual Total
07/01/07	$ 319,066,346.35	$ 7,070,000.00	$ 21,706,040.28	$ 28,776,040.28	-	$ 2,477,023.92	$ 2,477,023.92	$ 7,070,000.00	$ 24,183,064.20	$ 31,253,064.20	$ 350,319,410.55	$ 350,319,410.55
01/01/08	111,532,171.52	-	25,733,350.00	25,733,350.00	-	2,952,743.75	2,952,743.75	-	28,686,093.75	28,686,093.75	140,218,265.27	-
07/01/08	292,987,171.52	2,965,000.00	25,733,350.00	28,698,350.00	-	2,952,743.75	2,952,743.75	2,965,000.00	28,686,093.75	31,651,093.75	324,638,265.27	464,856,530.54
01/01/09	107,628,838.40	-	25,674,050.00	25,674,050.00	-	2,952,743.75	2,952,743.75	-	28,626,793.75	28,626,793.75	136,255,632.15	-
07/01/09	311,188,838.40	3,085,000.00	25,674,050.00	28,759,050.00	-	2,952,743.75	2,952,743.75	3,085,000.00	28,626,793.75	31,711,793.75	342,900,632.15	479,156,264.30
01/01/10	103,188,940.65	-	25,612,350.00	25,612,350.00	-	2,952,743.75	2,952,743.75	-	28,565,093.75	28,565,093.75	131,754,034.40	-
07/01/10	276,428,940.65	3,210,000.00	25,612,350.00	28,822,350.00	-	2,952,743.75	2,952,743.75	3,210,000.00	28,565,093.75	31,775,093.75	308,204,034.40	439,958,068.80
01/01/11	99,206,706.27	-	25,548,150.00	25,548,150.00	-	2,952,743.75	2,952,743.75	-	28,500,893.75	28,500,893.75	127,707,600.02	-
07/01/11	281,231,706.27	3,340,000.00	25,548,150.00	28,888,150.00	-	2,952,743.75	2,952,743.75	3,340,000.00	28,500,893.75	31,840,893.75	313,072,600.02	440,780,200.04
01/01/12	94,801,321.27	-	25,481,350.00	25,481,350.00	-	2,952,743.75	2,952,743.75	-	28,434,093.75	28,434,093.75	123,235,415.02	-
07/01/12	290,566,321.27	3,470,000.00	25,481,350.00	28,951,350.00	-	2,952,743.75	2,952,743.75	3,470,000.00	28,434,093.75	31,904,093.75	322,470,415.02	445,705,830.04
01/01/13	89,972,946.27	-	25,411,950.00	25,411,950.00	-	2,952,743.75	2,952,743.75	-	28,364,693.75	28,364,693.75	118,337,640.02	-
07/01/13	289,797,946.27	3,610,000.00	25,411,950.00	29,021,950.00	-	2,952,743.75	2,952,743.75	3,610,000.00	28,364,693.75	31,974,693.75	321,772,640.02	440,110,280.04
01/01/14	84,953,985.01	-	25,339,750.00	25,339,750.00	-	2,952,743.75	2,952,743.75	-	28,292,493.75	28,292,493.75	113,246,478.76	-
07/01/14	292,543,985.01	3,755,000.00	25,339,750.00	29,094,750.00	-	2,952,743.75	2,952,743.75	3,755,000.00	28,292,493.75	32,047,493.75	324,591,478.76	437,837,957.52
01/01/15	79,638,432.51	-	25,264,650.00	25,264,650.00	-	2,952,743.75	2,952,743.75	-	28,217,393.75	28,217,393.75	107,855,826.26	-
07/01/15	291,003,432.51	3,905,000.00	25,264,650.00	29,169,650.00	-	2,952,743.75	2,952,743.75	3,905,000.00	28,217,393.75	32,122,393.75	323,125,826.26	430,981,652.52
01/01/16	74,177,815.01	-	25,186,550.00	25,186,550.00	-	2,952,743.75	2,952,743.75	-	28,139,293.75	28,139,293.75	102,317,108.76	-
07/01/16	300,627,815.01	4,060,000.00	25,186,550.00	29,246,550.00	-	2,952,743.75	2,952,743.75	4,060,000.00	28,139,293.75	32,199,293.75	332,827,108.76	435,144,217.52
01/01/17	68,442,891.26	-	25,105,350.00	25,105,350.00	-	2,952,743.75	2,952,743.75	-	28,058,093.75	28,058,093.75	96,500,985.01	-
07/01/17	313,837,891.26	4,225,000.00	25,105,350.00	29,330,350.00	-	2,952,743.75	2,952,743.75	4,225,000.00	28,058,093.75	32,283,093.75	346,120,985.01	442,621,970.02
01/01/18	62,233,341.26	-	25,020,850.00	25,020,850.00	-	2,952,743.75	2,952,743.75	-	27,973,593.75	27,973,593.75	90,206,935.01	-
07/01/18	328,958,341.26	4,390,000.00	25,020,850.00	29,410,850.00	-	2,952,743.75	2,952,743.75	4,390,000.00	27,973,593.75	32,363,593.75	361,321,935.01	451,528,870.02
01/01/19	55,469,306.88	-	24,911,100.00	24,911,100.00	-	2,952,743.75	2,952,743.75	-	27,863,843.75	27,863,843.75	83,333,150.63	-
07/01/19	346,109,306.88	4,610,000.00	24,911,100.00	29,521,100.00	-	2,952,743.75	2,952,743.75	4,610,000.00	27,863,843.75	32,473,843.75	378,583,150.63	461,916,301.26
01/01/20	48,352,544.38	-	24,795,850.00	24,795,850.00	-	2,952,743.75	2,952,743.75	-	27,748,593.75	27,748,593.75	76,101,138.13	-
07/01/20	361,652,544.38	4,840,000.00	24,795,850.00	29,635,850.00	-	2,952,743.75	2,952,743.75	4,840,000.00	27,748,593.75	32,588,593.75	394,241,138.13	470,342,276.26
01/01/21	40,618,091.88	-	24,674,850.00	24,674,850.00	-	2,952,743.75	2,952,743.75	-	27,627,593.75	27,627,593.75	68,245,685.63	-
07/01/21	383,588,091.88	-	24,674,850.00	24,674,850.00	$ 5,085,000.00	2,952,743.75	8,037,743.75	5,085,000.00	27,627,593.75	32,712,593.75	416,300,685.63	484,546,371.26
01/01/22	32,108,778.13	-	24,674,850.00	24,674,850.00	-	2,838,331.25	2,838,331.25	-	27,513,181.25	27,513,181.25	59,621,959.38	-
07/01/22	218,293,778.13	158,000,000.00	24,674,850.00	182,674,850.00	26,670,000.00	2,838,331.25	29,508,331.25	184,670,000.00	27,513,181.25	212,183,181.25	430,476,959.38	490,098,918.76
01/01/23	27,476,332.50	-	21,119,850.00	21,119,850.00	-	2,238,256.25	2,238,256.25	-	23,358,106.25	23,358,106.25	50,834,438.75	-
07/01/23	235,926,332.50	157,570,000.00	21,119,850.00	178,689,850.00	17,505,000.00	2,238,256.25	19,743,256.25	175,075,000.00	23,358,106.25	198,433,106.25	434,359,438.75	485,193,877.50
01/01/24	22,321,448.75	-	17,574,525.00	17,574,525.00	-	1,844,393.75	1,844,393.75	-	19,418,918.75	19,418,918.75	41,740,367.50	-
07/01/24	211,121,448.75	183,450,000.00	17,574,525.00	201,024,525.00	20,385,000.00	1,844,393.75	22,229,393.75	203,835,000.00	19,418,918.75	223,253,918.75	434,375,367.50	476,115,735.00
01/01/25	17,701,237.50	-	13,446,900.00	13,446,900.00	-	1,411,212.50	1,411,212.50	-	14,858,112.50	14,858,112.50	32,559,350.00	-
07/01/25	177,471,237.50	184,270,000.00	13,446,900.00	197,716,900.00	20,475,000.00	1,411,212.50	21,886,212.50	204,745,000.00	14,858,112.50	219,603,112.50	397,074,350.00	429,633,700.00
01/01/26	13,785,265.00	-	9,300,825.00	9,300,825.00	-	976,118.75	976,118.75	-	10,276,943.75	10,276,943.75	24,062,208.75	-
07/01/26	134,855,265.00	199,700,000.00	9,300,825.00	209,000,825.00	22,190,000.00	976,118.75	23,166,118.75	221,890,000.00	10,276,943.75	232,166,943.75	367,022,208.75	391,084,417.50
01/01/27	30,988,731.25	-	4,807,575.00	4,807,575.00	-	504,581.25	504,581.25	-	5,312,156.25	5,312,156.25	36,300,887.50	-
07/01/27	107,710,287.50	107,230,000.00	4,807,575.00	112,037,575.00	11,915,000.00	504,581.25	12,419,581.25	119,145,000.00	5,312,156.25	124,457,156.25	232,167,443.75	268,468,331.25
01/01/28	17,000,687.50	106,440,000.00	2,394,900.00	108,834,900.00	11,830,000.00	251,387.50	12,081,387.50	118,270,000.00	2,646,287.50	120,916,287.50	137,916,975.00	-
07/01/28	100,521,343.75	-	-	-	-	-	-	-	-	-	100,521,343.75	238,438,318.75
01/01/29	5,473,893.75	-	-	-	-	-	-	-	-	-	5,473,893.75	-
07/01/29	101,728,893.75	-	-	-	-	-	-	-	-	-	101,728,893.75	107,202,787.50
01/01/30	3,097,062.50	-	-	-	-	-	-	-	-	-	3,097,062.50	-
07/01/30	100,902,062.50	-	-	-	-	-	-	-	-	-	100,902,062.50	103,999,125.00
01/01/31	651,937.50	-	-	-	-	-	-	-	-	-	651,937.50	-
07/01/31	26,741,937.50	-	-	-	-	-	-	-	-	-	26,741,937.50	27,393,875.00
TOTAL	$7,385,683,972.75	$1,153,195,000.00	$913,470,290.28	$2,066,665,290.28	$136,055,000.00	$105,031,023.92	$241,086,023.92	$1,289,250,000.00	$1,018,501,314.20	$2,307,751,314.20	$9,693,435,286.95	$9,693,435,286.95

(1) Includes all series of Prior Bonds (excluding the Prior Bonds that constitute the Refunded Bonds), 2002 General Obligation Refunding Bonds, 2004 General Obligation Refunding Bonds, 2005 General Obligation Refunding Bonds and 2006 General Obligation Refunding Bonds. Does not include the general obligation bonds expected to be issued by the District pursuant to the Measure K Authorization in February 2007.

Assessed Valuation of Property Within the District

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

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

State law provides, among other things, for accelerated recognition and taxation of increases in real property assessed valuation upon change in ownership of property or completion of new construction. Accordingly, each 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 2006-07, the District's total secured and unsecured assessed valuation is $402.6 billion. The assessed valuation of property in the District for each Fiscal Year from Fiscal Year 1997-98 through Fiscal Year 2006-07 is set forth below.

Los Angeles Unified School District
Historical Gross Assessed Valuation of Taxable Property
Fiscal Years 1997-98 through 2006-07
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total	Increase From Prior Year	Percent Increase
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
2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65

(1) Includes utility valuations.
Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1997-98 through 2005-06. Los Angeles County Auditor-Controller for Fiscal Year 2006-07.

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. Since State law allows homeowners' exemptions (described above) and certain businesses exemptions from ad valorem property taxation, such exemptions are not included in the total secured tax levy.

The following table shows real property tax levies, collections and delinquencies and the total tax rate in the District from Fiscal Year 1996-97 through Fiscal Year 2005-06.

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

Fiscal Year Ended June 30	Total Tax Levy	ERAF Funds[1]	Tax Collections[2]	Delinquent & Other Unpaid Tax Levies[3]	Current Delinquency Rate[4]	Total District Tax Rate[5]
1997	$420,158	$392,577	$ 775,879	$15,807	2.04%	1.003338%
1998	442,619	428,745	832,010	33,855	4.07	1.012017
1999	486,496	420,226	834,727	22,342	2.68	1.024749
2000	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	13,811	1.17	1.036973
2004	821,820	576,038	1,386,560	34,987	2.52	1.077145
2005	929,248	171,052[6]	1,091,325	34,128	3.13	1.088839
2006	991,275	76,068[6]	1,026,351	30,963	3.02	1.084346

(1) Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District and are subject to adjustment annually pursuant to the State Budget. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—STATE FUNDING OF EDUCATION—General."
(2) Includes collections from prior years.
(3) Includes prior years' delinquencies. The District participates in a countywide delinquent tax financing program through which it sells its delinquent tax revenues and receives an upfront payment. 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, including its general obligation refunding bonds.
(6) The Fiscal Year 2004-05 State Budget Act provided for a significant portion of all school district ERAF funds to be shifted to cities and counties. The State backfilled these funds by increasing State aid to schools.

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

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2006-2007 are set forth below.

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

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

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

BOND INSURANCE

Disclaimer

The information relating to the Insurers and their policies contained herein have been furnished by the respective Insurer. No representation is made by the District or the Underwriters as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurers subsequent to the date of this Official Statement. Additional financial information with respect to each of the Insurers is on file with the State of New York Insurance Department. Prospective purchasers of the Insured Bonds may contact such Insurance Department to obtain such information. Reference is made to Appendix G for a specimen of each Insurer's policy.

No assurance can be given that each of the Insurers will be financially able to meet their contractual obligations under each of their policies.

In the event the District fails to make payment of the principal of and interest on any of the Insured Bonds when the same become due, such payments are insured under the related policy. Each policy, however, does not insure the principal of or interest on the related Insured Bonds coming due by reason of optional redemption.

In the event that the applicable Insurer is unable to make payments of principal and interest on the related Insured Bonds as such payments become due, such Insured Bonds will be payable solely from proceeds of an ad valorem tax authorized to be levied by the County. See the disclosure with respect to each Insurer herein for further information concerning such Insurer and the related policy.

Owners of the Insured Bonds should note that, although each Insurer's policy will insure payment of the principal amount (but not any premium) that is paid to any Owner in connection with the optional redemption of any related Insured Bond and that is recovered from such Owner as a voidable preference under applicable bankruptcy laws, such amounts will be repaid by the related Insurer to such Owner only at such times and in such amounts as would have applied in the absence of such redemption.

FSA Insured Bonds – Financial Security Assurance Inc.

Bond Insurance Policy. Concurrently with the issuance of the FSA Insured Bonds, FSA will issue its Municipal Bond Insurance Policy (the "FSA Policy") for the FSA Insured Bonds maturing on July 1 of the years 2010 through 2024, inclusive. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Policy included as an appendix to this Official Statement.

The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc. FSA is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At September 30, 2006, FSA's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, FSA's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of FSA included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of FSA included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to FSA: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The FSA Policy does not protect investors against changes in market value of the FSA Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the District the information presented under this caption for inclusion in the Official Statement.

MBIA Insured Bonds – MBIA Insurance Corporation

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—MBIA Insured Bonds—MBIA Insurance Corporation." 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 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 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, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006 MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of

$4.4 billion (unaudited), each as 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, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, 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, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, 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 for the year ended December 31, 2005; and

The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

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 for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006) 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.

FGIC-Insured Bonds – Financial Guaranty Insurance Company

Payments Under the FGIC Policy. Concurrently with the issuance of the FGIC-Insured Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("FGIC"), will issue its Municipal Bond New Issue Insurance Policy (the "FGIC Policy") for the FGIC-Insured Bonds. The FGIC Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the FGIC-Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the District. FGIC will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which FGIC shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of FGIC-Insured Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the District. The Fiscal Agent will disburse such amount due on any FGIC-Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in FGIC. The term "nonpayment" in respect of a FGIC-Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a FGIC-Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by FGIC. The FGIC Policy covers failure to pay principal of the FGIC-Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC-Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC-Insured Bonds is accelerated, FGIC will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, FGIC will become the owner of the FGIC-Insured Bond, appurtenant coupon or right to payment of principal or interest on such FGIC-Insured Bond and will be fully subrogated to all of the FGIC Insured Bondholder's rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the District, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) 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; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the FGIC-Insured Bonds, FGIC may be granted certain rights under the FGIC-Insured Bond documentation. The specific rights, if any, granted to FGIC in connection with its insurance of the FGIC-Insured Bonds may be set forth in the description of the principal legal documents described in this Official Statement, and reference should be made thereto.

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

The FGIC Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company. FGIC is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. FGIC is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

FGIC is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At September 30, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of FGIC or any claims under any insurance policy, including the FGIC Policy, issued by FGIC.

FGIC is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, FGIC is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transaction insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At September 30, 2006, FGIC had net admitted assets of approximately $3.795 billion, total liabilities of approximately $2.659 billion, and total capital and policyholders' surplus of approximately $1.136 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of FGIC and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of September 30, 2006 and the audited consolidated financial statements of FGIC and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE – FGIC-Insured Bonds – Financial Guaranty Insurance Company," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by FGIC with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of FGIC (if any) included in documents filed by FGIC with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the FGIC-Insured Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although FGIC prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making

such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to FGIC's SAP audited financial statements.

Copies of FGIC's most recent GAAP and SAP financial statements are available upon request to: FGIC, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. FGIC's telephone number is (212) 312-3000.

Recent Developments. On November 15, 2006, FGIC received a subpoena from the Antitrust Division of the U.S. Department of Justice. Based upon press reports, FGIC believes that the subpoena relates to an ongoing criminal investigation of alleged bid rigging of awards of municipal guaranteed investment contracts ("Municipal GICs") and that several other companies (including other financial guarantors) have received similar subpoenas. Until December 18, 2003, when FGIC was acquired from General Electric Capital Corporation ("GE Capital") by its current owners, FGIC was affiliated with certain companies (the "Former Affiliates") that provided Municipal GICs. The Former Affiliates remained a part of GE Capital after the acquisition of FGIC, and the outstanding Municipal GICs remained with the Former Affiliates. The subpoena contains no allegations or statements concerning the activities of FGIC. FGIC intends to cooperate fully with the investigation.

FGIC's Credit Ratings. The financial strength of FGIC is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of FGIC should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of FGIC. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC-Insured Bonds, and are 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 FGIC-Insured Bonds. FGIC does not guarantee the market price or investment value of the FGIC-Insured Bonds nor does it guarantee that the ratings on the FGIC-Insured Bonds will not be revised or withdrawn.

Neither FGIC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the FGIC-Insured Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to FGIC or the FGIC Policy under the heading "BOND INSURANCE—FGIC-Insured Bonds—Financial Guaranty Insurance Company" herein. In addition, FGIC makes no representation regarding the FGIC-Insured Bonds or the advisability of investing in the FGIC-Insured Bonds.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District and others in connection with the Bonds, and Bond Counsel has assumed compliance by the District and others with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the District, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax exempt status or market price of the Bonds.

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 2006-07, and to provide notices of the occurrence of certain enumerated events, if material. The District will provide the Annual Report to Digital Assurance Certification, L.L.C. ("DAC"), as dissemination agent, to file with each Nationally Recognized Municipal Securities Information Repository, and with the State information repository, if any. The District will provide the notices of material events to DAC to file with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State information repository, if any. Copies of the District's Annual Reports and notices of material event filings are available at DAC's website, www.dacbond.com, although the information presented there is not incorporated by reference in this Official Statement and should not be relied upon in making an investment decision with respect to the 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 Repositories and the Municipal Securities Rulemaking Board, through DAC. As of the date hereof, the District is in compliance with its continuing disclosure obligations.

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 – "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 Fund 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.

Legality for Investment in California

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of said bank, are prudent for the investment of funds of depositors, and, under provisions of the Government Code of the State, are eligible for security for deposits of public moneys in the State.

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. The proposed form of Bond Counsel opinion is contained in Appendix D hereto. Sidley Austin LLP, San Francisco, California acted as Disclosure Counsel to the District. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP. Certain legal matters will be passed upon for the District by the District's General Counsel.

FINANCIAL STATEMENTS

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

MISCELLANEOUS

Ratings

Moody's and S&P have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Insured Bonds with the understanding that upon the delivery of the Bonds, FGIC will issue its municipal bond new issue insurance policy with respect to the FGIC-Insured Bonds, FSA will issue its municipal bond insurance policy with respect to the FSA Insured Bonds and MBIA will issue its municipal bond insurance policy with respect to the MBIA Insured Bonds. Moody's and S&P have assigned their underlying and uninsured ratings of "Aa3" and "AA-," respectively, to the Bonds. 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 respective 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 and Standard & Poor's, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124. 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.

Financial Advisor

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

Verification Agent

Upon execution and delivery of the Bonds, Causey Demgen & Moore Inc. (the "Verification Agent"), a firm of independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of the schedules with respect to the sufficiency of the escrow funds established to pay the Refunded Bonds in full on the dates of payment or redemption thereof. The scope of the verification will be based solely on information and assumptions provided to the Verification Agent by the Underwriters.

Underwriting

The Bonds are being purchased by the underwriters listed on the front cover hereof (collectively, the "Underwriters," for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative), at the purchase price of (i) $1,165,278,677.20 (which is equal to the aggregate principal amount of the Series A-1 Bonds, plus a net original issue premium of $13,709,682.15 and less an underwriters' discount of $1,626,004.95) for the Series A-1 Bonds and (ii) $134,539,183.25 (which is equal to the aggregate principal amount of the Series A-2 Bonds, less a net original issue discount of $1,323,979.20 and less an underwriters' discount of $191,837.55) for the Series A-2 Bonds. 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 initial public offering prices stated on the inside cover page of this Official Statement. The initial public 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 Resolution 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. 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 the Paying Agent.

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.

Execution and Delivery

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

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APPENDIX A

DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

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DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

The information in this Appendix A concerning the operations of the Los Angeles Unified School District (the "District") and the District's finances and demographics is provided as supplementary information only. The Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A (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 this Appendix A, to obtain information essential to making an informed investment decision. See "GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS" for a description of certain terms and abbreviations used in this Appendix A.

DISTRICT GENERAL INFORMATION

District Organization

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

District Governance; Senior Management

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

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

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

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

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

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

Dan M. Isaacs, Chief Operating Officer. Dan M. Isaacs was named Chief Operating Officer of the District in April 2005. Prior to being named 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.

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.

Joseph Mehula, Chief Facilities Executive. Joseph Mehula is Chief Facilities Executive of the District and is responsible for facilities planning and operations. Mr. Mehula joined the District in July 2002 as Deputy Chief Facilities Executive for the new school construction program, an $11.7 billion multi-year, new school construction project.

Prior to joining the District, Mr. Mehula served for 25 years in the U.S. Navy's Civil Engineer Corps, building and maintaining facilities, and was the Chief Operating Officer of a company performing government contracts. Mr. Mehula graduated from the United States Naval Academy with a Bachelors Degree in Systems Engineering and received a Masters Degree in Civil Engineering from the University of Florida. He is a registered Professional Engineer.

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 25 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 12 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 12 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 and has held numerous leadership positions for over 10 years, including Southern Section President.

Facilities and Staff

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

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

Enrollment

General. K-12 School Enrollment (as defined below) was approximately 698,092 for Fiscal Year 2005-06 and is approximately 673,500 for Fiscal Year 2006-07.

The following Table A-1 sets forth the population of the District and school enrollment information for the District for Fiscal Year 1997-98 through Fiscal Year 2006-07. In Table A-1 below, "School Enrollment" includes enrollment for all schools operated by the District, including graded and ungraded enrollment in K-12 schools, adult education schools and early education centers, and "K-12 School Enrollment" includes all School Enrollment less enrollment in adult education schools and early education centers. Changes in School Enrollment may not correspond to similar changes in K-12 School Enrollment due to increases or decreases in enrollment for adult education and early education centers.

TABLE A-1

Los Angeles Unified School District
Population and School Enrollment Figures
Fiscal Years 1997-98 through 2006-07
(in thousands)

Fiscal Year Ended June 30	Population of District[1]	School Enrollment in District[2] [3]	K-12 School Enrollment [3]
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
2003	4,660	905	747
2004	4,718	892	727
2005	4,776	879	718
2006	4,785	847	698
2007	N/A[4]	830	674

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

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

K-12 School Enrollment. As set forth in Table A-1 above, the District's K-12 School Enrollment figures decreased in Fiscal Year 2006-07 to approximately 673,500. The District anticipates, based on certain demographic information, that total K-12 School Enrollment, which excludes independent charter schools, will continue to decrease annually over the next several years. Declining enrollment 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 State lottery funds. See "STATE FUNDING OF EDUCATION—General." Moreover, declining enrollment may entail other cost implications, including a decline in expenditures at a slower rate than any corresponding decline in revenue. Even with declining enrollment, the District's New School Construction Program (defined below) is not expected to eliminate overcrowding in the District. Upon completion of the New Construction Program, the District estimates that over 200,000 students will still be placed in portable classrooms.

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

Despite these academic gains, in March 2005 the District was deemed a Program Improvement District based on measures established under the federal No Child Left Behind Act of 2001 (the "NCLB Act"). The State identified 167 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 a LEA has high school students and (3) percentage of students performing at or above the proficient level in English-language arts and mathematics (also measured LEA-wide, by grade span and by subgroups), as compared to performance targets established under the NCLB Act. The District believes that the reason for this designation relates mainly to the academic performance of the District's special education students and students for whom English is not their native language ("English Learners").

In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA's Program Improvement status. Failure to make AYP in three consecutive years will result in corrective action by the state education agency. The District has adopted a LEA Program Improvement Plan designed to address these academic performance concerns and has received additional categorical funding for this purpose. The District does not anticipate its Program Improvement status will jeopardize the availability of federal or State categorical funding.

Potential Changes in Governance and District Division

State Legislative Changes in the Structure of the District's Governance. The State Legislature approved and the Governor signed legislation to change the governance structure of the District ("AB 1381") on August 29, 2006 and September 18, 2006, respectively. AB 1381, which became effective on

January 1, 2007, provides for the establishment of a council of mayors, composed of certain city mayors within the County, including the Mayor of the City of Los Angeles, California (the "Mayor"), and members of the county board of supervisors (collectively, the "Council of Mayors"). AB 1381 authorizes the Council of Mayors to select a representative to participate in all aspects of the Board's selection of the Superintendent and subject the appointment, removal and terms of employment of the Superintendent to ratification by the Council of Mayors, which acts by 90% of the weighted vote of its total membership. AB 1381 also requires the Mayor to direct the operation of three clusters of the lowest performing schools in different geographic areas within the City, each cluster being comprised of a high school ranked in decile 1 or 2 on the API and its feeder middle and elementary schools and other programs, including, but not limited to, early childhood programs and centers, continuation schools, and adult programs, and requires the establishment of an office of parent communication to ensure that the District complies with the processes for receiving and addressing parent complaints and the requirements relating to parent information and participation. In addition, AB 1381 modifies the District's budgeting process to provide the Superintendent with expanded authority over categories below the "major object code" level, including the authority to make determinations with respect to instructional services and after-school programs, and increases the Superintendent's authority over the contracting operations of the District. To the extent the Superintendent expends any bond proceeds in the exercise of his authority, he is obligated to comply with the restrictions and obligations that otherwise would have devolved upon the Board in conjunction with the expenditure of such bond proceeds. AB 1381 does not remove or alter the obligations of the District to comply with all requirements for the expenditure of bond proceeds, including the District's obligations to maintain the Citizen's Bond Oversight Committee. AB 1381 also shifts the District's financial reporting obligations to the Superintendent, while maintaining the substance of all such existing obligations.

AB 1381 contains certain provisions that may require further clarification. The State Legislature may introduce additional legislation to, among other things, clarify such provisions. The District is unable to predict whether future legislation will be introduced or enacted to change the governance of the District or the impact that any such future legislation would have on the District.

On October 10, 2006, the District and a group of 12 other plaintiffs, including parents, parent teacher associations, school administrators, the League of Women Voters Los Angeles and Diane E. Watson (in her personal capacity), filed an action with the Superior Court of Los Angeles asking for a writ of mandate to declare AB 1381 unconstitutional and for an injunction to prevent AB 1381 from taking effect. The Superior Court of Los Angeles granted the writ of mandate on December 21, 2006, declaring AB 1381 unconstitutional and ordering that an injunction be issued to prevent the enforcement or implementation of AB 1381. The Mayor and the State of California filed a notice of appeal. The Mayor also requested that the Superior Court of Los Angeles stay its decision to enjoin the enforcement or implementation of AB 1381, pending the decision from the State Court of Appeal. On January 11, 2007, the Superior Court denied the Mayor's motion to delay enforcement of the Superior Court's decision to enjoin the enforcement or implementation of AB 1381 pending the decision from the State Court of Appeal. The foregoing notwithstanding, the District believes that AB 1381 would not materially modify the District's obligations with respect to financial reporting, impact the security of and payment for the Bonds or adversely affect the District's ability to repay the Bonds or its other financial obligations as and when due.

Petitions with LACOE and CCSDO. Petitions have been occasionally filed with LACOE to divide portions of the District into smaller school districts. In addition, the County Committee on School District Organization (the "CCSDO") has been periodically requested to approve petitions to form school districts within the District. The evaluation of such petitions requires extensive review of 10 critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates. Under State law, an equitable allocation of existing

District debt obligations, including the Bonds, would be required in any division of the District. As of the date of this Official Statement, there are no petitions pending with LACOE or CCSDO to divide the District. The District is unable to predict whether any petitions to create school districts within the District will be filed or the impact that any such petitions would have on the District.

Council of Great City Schools Report

In October 2004, the Board and former Superintendent Roy Romer 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. In its report entitled "Review of the Organizational Structure and Operations of the Los Angeles Unified School District" released in December 2005, the Council recommended a set of strategic proposals to assist the District in its efforts to improve its management, operations, effectiveness and efficiency. The recommendations 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. The District has implemented a majority of the Council's recommendations.

Williams Settlement Agreement and the New School Construction Program

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

The *Williams* case was settled in 2004. The settlement 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 for all schools; and (iii) additional funding to conduct an assessment of facilities conditions, supplement the county superintendents' of schools capacity to oversee low performing schools and 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) Assembly Bill 1550, which requires the elimination of the use of the multi-track, year-round school calendar, known as Concept 6, with a shortened school year by July 1, 2012; (iii) Assembly Bill 3001, which encourages the placement of qualified teachers in low performing schools, ensures the proper training of teachers of English Learners, and streamlines the process for highly qualified teachers from out-of-state to teach in California schools; and (iv) Senate Bill 6, which provides up to $800 million beginning in Fiscal Year 2005-06 for school districts to address emergency facility repair projects and approximately $25 million in Fiscal Year 2004-05 to assess the condition of schools in the bottom three API deciles. Under this legislation, the District received approximately $4.9 million for assessment of the condition of its schools in Fiscal Year 2004-05. The District did not receive any funds under this legislation in Fiscal Year 2005-06.

Pursuant to the terms of the settlement agreement and in accordance with the *Williams* legislation, in December 2004, the Board adopted a construction plan that prioritizes school construction to ensure all schools are removed from the Concept 6 calendar by July 1, 2012 (the "New School Construction Program"). The New School Construction Program is a multi-year capital improvement program that is the major component of the District's effort to relieve overcrowding in its schools by returning students to a traditional two-semester calendar. As of July 1, 2006, the program's cost is $11.7 billion and the program is expected to provide facilities for approximately 6,600 classrooms by the end of the year 2012. State and local bond measures and other funding sources provide revenues for this program. The District has identified a potential funding shortfall due to (1) projected increased costs of the New School Construction Program, which projected increased costs are due primarily to higher than originally projected building and land acquisition costs and (2) projected declining enrollment of the District, as State matching funds are currently determined according to formulae that require enrollment growth as opposed to relief of overcrowding. The estimated total shortfall is approximately $2.5 billion. The District is evaluating various options to address these costs and funding issues. Some of the options, among others, being considered are reallocation of existing bond funds, additional bond authorization and proposed State legislation that would change the eligibility formulae for State matching funds to consider overcrowding, as opposed to only enrollment.

STATE FUNDING OF EDUCATION

General

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

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

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

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

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

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

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

The following Table A-2 sets forth the District's revenue limit per unit of ADA from Fiscal Year 1997-98 through Fiscal Year 2005-06 and the projected revenue limit per unit of ADA for Fiscal Year 2006-07.

TABLE A-2

Los Angeles Unified School District
Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 1997-98 to 2006-07

Fiscal Year Ended June 30	K-12 Base Limit(1)	Adult Total Limit
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	5,179.66	2,389.22
2007	5,540.48	2,530.66(2)

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

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

From Fiscal Years 1997-98 through 1999-00 and again in Fiscal Years 2003-04 through 2006-07, actual amounts received by the District under the revenue limit were reduced by a deficit factor applied by the State to school districts Statewide as set forth in Table A-3 below.

TABLE A-3

Los Angeles Unified School District
Deficit Factor
Fiscal Years 1997-98 to 2006-07

Fiscal Year Ended June 30	Deficit Factor
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	0.299

Source: Los Angeles Unified School District.

The following Table A-4 sets forth the cost-of-living adjustments ("COLA") from Fiscal Years 1997-98 through Fiscal Year 2006-07 as reflected in the State Budget Acts for those respective years.

TABLE A-4

Los Angeles Unified School District
Cost-of-Living Adjustment
Fiscal Years 1997-98 to 2006-07

Fiscal Year Ended June 30	Cost of Living Adjustment
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	5.92

Source: State Budget Acts for Fiscal Year 1997-98 through Fiscal Year 2006-07.

The District's ADA record for each of the Fiscal Years 1997-98 through 2006-07 is set forth in Table A-5 below:

TABLE A-5

Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 1997-98 to 2006-07

Fiscal Year Ended June 30	Average Daily Attendance[1] K-12	Dependent Charter Schools[2]	Adult Education Program	Total
1998	654,783	–	76,423	731,206
1999	641,074	–	78,031	719,105
2000	654,664	–	77,745	732,409
2001	642,713	19,952	77,628	740,293
2002	656,306	20,010	86,372	762,688
2003	661,615	17,681	86,841	766,137
2004	666,169	5,143[3]	87,293	758,605
2005	654,308	5,990	86,307	746,605
2006	633,013	5,958	83,593	722,564
2007[4]	620,231	6,248	70,806	697,285

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

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1997-98 through 2005-06. Los Angeles Unified School District 2006-07 Final Adopted Budget for Fiscal Year 2006-07.

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

Charter School Funding

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

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

Proposition 98

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

Proposition 98 permits the State Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one year period. The amount of suspension is eventually repaid according to a specified State Constitutional formula, thereby restoring Proposition 98 funding to the level that would have been required in the absence of such suspension. The Fiscal Year 2004-05 State Budget Act suspended the Proposition 98 minimum guarantee for Fiscal Year 2004-05; however, the suspended amount was fully paid in Fiscal Year 2005-06. The Proposition 98 minimum guarantee was fully funded for Fiscal Year 2005-06 and is proposed to be fully funded in the Fiscal Year 2006-07 State Budget. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the limit to K-14 schools under Article XIIIB of the State Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 98" below for further discussion of the minimum funding tests under Proposition 98 and the impact of Proposition 98 on K-14 education funding.

State Budget

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

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

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the State Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the State Legislature and be signed by the Governor. Bills containing K-14 education appropriations require only a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse. See "State Funding of Schools Without a State Budget" below for a discussion of payments of appropriations during a budget impasse.

Fiscal Year 2006-07 State Budget. On June 30, 2006, Governor Schwarzenegger signed into law the Fiscal Year 2006-07 State Budget (the "2006-07 State Budget"). The Fiscal Year 2006-07 State Budget projects Fiscal Year 2006-07 General Fund revenues and transfers of $94.3 billion, total expenditures of $101.3 billion and a year-end reserve of $2,038 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 $9.53 billion. The year-end reserve of $2.038 billion for Fiscal Year 2006-07 is comprised of $1.566 billion as a special fund for economic uncertainties and $920 million to be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58.

The Fiscal Year 2006-07 State Budget includes $55.1 billion in Proposition 98 funding, an increase of $8.1 billion, or 17% compared to the Fiscal Year 2004-05 State Budget. Total K-12 per-pupil expenditures from all sources are projected to be $11,264 in Fiscal Year 2006-07, an increase of $1,287 or 13%. The Fiscal Year 2006-07 State Budget includes the restoration of funding for arts and music, physical education, student counselors in grades 7-12 and a new, targeted preschool initiative. In addition, the Fiscal Year 2006-07 State Budget provides $1.4 billion to fully fund Proposition 42 for the second consecutive year and provides an additional $1.4 billion for the early repayment of past loans from Proposition 42, for a total of $2.8 billion. Of the $1.4 billion repayment, $446 million is designated for cities and counties for local road and street maintenance. The Fiscal Year 2006-07 State Budget also provides $250 million for deferred maintenance in the State park system.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governor's Budget for Fiscal Year 2007-08. On January 10, 2007, Governor Schwarzenegger released the proposed Fiscal Year 2007-08 Governor's Budget (the "2007-08 Governor's Budget"). The 2007-08 Governor's Budget projects Fiscal Year 2007-08 General Fund revenues and transfers of $101.3 billion, total expenditures of $103.1 billion and a year-end reserve of $2.1 billion. The budget imbalance between the anticipated revenues and transfers and the proposed expenditures is expected to be reconciled by applying the estimated ending fund balance in Fiscal Year 2006-07 of $3.2 billion. The year-end reserve of $2.1 billion for Fiscal Year 2007-08 is comprised of $745 million as a reserve for the liquidation of encumbrances and $590 million as a special fund for economic uncertainties. In addition, $2.05 billion is expected to be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58, of which $1.02 billion will be allocated to a subaccount that is dedicated to the early prepayment of economic recovery bonds approved by the voters.

The 2007-08 Governor's Budget includes $66.3 billion total revenue funding for K-12 education, an increase of approximately $2.8 billion above the amount included in the revised Fiscal Year 2006-07 State Budget. Total per pupil expenditures from all sources are projected to be $11,240 in Fiscal Year 2006-07 and $11,584 in Fiscal Year 2007-08, respectively, including funds provided for prior year settle-up obligations.

The 2007-08 Governor's Budget includes total Proposition 98 funding for Fiscal Year 2007-08 of $56.8 billion, a 3.3% increase above the revised estimate for Fiscal Year 2006-07. The State General Fund contributes approximately 72.5%, or $41.2 billion of total proposed Proposition 98 funding. These totals include funding for K-12, community colleges, and other state agencies that serve students.

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

- **Cost of Living Adjustment Increases -** The 2007-08 Governor's Budget proposes a $1.9 billion increase to fund a 4.04% statutory COLA: $1.4 billion for revenue limits, $133 million for special education, $62.1 million for child care programs, $49.6 million for class size reduction and $277.9 million for various categorical programs.

- **School Facilities Funding Adjustments -** The 2007-08 Governor's Budget proposes a $2.8 billion increase in Fiscal Year 2006-07 and a $3.8 billion increase in Fiscal Year 2007-08 for school facilities. The largest portion of the increase is for the 2004 and 2006 School Facilities Bonds. In particular, the newly approved 2006 bond fund adds over $3 billion in new funding for current and budget years.

- **Adjustments for Average Daily Attendance -** The 2007-08 Governor's Budget proposes a $286.4 million net reduction in Fiscal Year 2007-08 to reflect the decline in ADA. The majority of this amount consists of a $283.6 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decline in attendance, there is a $129 million reduction in revenue limit apportionments for Fiscal Year 2006-07.

- **Local Property Tax Adjustments –** For Fiscal Years 2006-07 and 2007-08, the 2007-08 Governor's Budget reflects State General Fund decreases of $375.7 million and $1.6 billion, respectively. These revised estimates relate to school district and county office of education property tax revenues. In general, increases in local property tax revenues reduce the amount of State General Fund costs for revenue limit apportionments.

Legislative Analyst's Office Analysis of the 2007-08 Governor's Budget. On January 12, 2007, the Legislative Analyst's Office (the "LAO") released a report entitled "2007-08: Overview of the Governor's Budget" (the "LAO Budget Overview"), which provides an analysis by the LAO of the 2007-08 Governor's Budget. In the LAO Budget Overview, the LAO stated that "[t]he 2007-08 Governor's Budget proposes a major redirection of transportation funds, reductions in social services, and a variety of other actions to eliminate a significant shortfall in 2007-08. The plan assumes that adoption of its proposals will result in a balanced budget with an over-$2 billion reserve. However, the budget contains a significant number of downside risks and is based on a number of optimistic assumptions. Its key proposals also raise serious policy and legal issues. Adverse outcomes in just a few of these areas could easily eliminate most or all of the proposed reserve."

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

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

State Funding of Schools Without a State Budget

Although the State 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 State Legislature, (ii) authorized by a self-executing provision of the State Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the State Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. Nevertheless, the State Controller has concluded that the provisions of the Education Code of the State (the "Education Code") establishing K-12 and county office of education revenue limit funding do constitute continuing appropriations enacted by the State Legislature and, therefore, has indicated that State payments of such amounts would continue during a budget impasse. The State Controller, however, has concluded that K-12 categorical programs are not authorized pursuant to a continuing appropriation enacted by the State Legislature and, therefore, cannot be paid during a budget impasse.

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

DISTRICT FINANCIAL INFORMATION

District Budget

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

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

The District follows a dual adoption process for its budget. The first adoption is referred to as the "Provisional Budget" that is adopted on or prior to June 30 each year. The second adoption is referred to as the "Final Adopted Budget" that is due to the Los Angeles County Office of Education on or before September 8 each year. The Board adopted its Fiscal Year 2006-07 Final Adopted Budget on August 29, 2006.

Fiscal Year 2006-07 Final Adopted Budget. The District's 2006-07 Final Adopted Budget projects General Fund revenues of $7.107 billion, total estimated expenditures of $6.994 billion and an ending balance of $547.4 million for Fiscal Year 2006-07. The District's 2006-07 Final Adopted Budget reflects a General Fund beginning balance of $434.5 million, of which $67.6 million is for the mandatory 1% Reserve for Economic Uncertainties, $285.8 million is restricted either by statute or the District's policy and $81.1 million is from the unreserved undesignated balance from Fiscal Year 2005-06. The projected revenues for the District's General Fund – Regular Program, which reflects funding for the District's basic instructional programs, totals $5.846 billion. The District anticipates that $5.739 billion of the District's General Fund – Regular Program amounts will be expended in Fiscal Year 2006-07.

The District's K-12 School Enrollment is expected to decrease by approximately 24,000 in Fiscal Year 2006-07 to 674,000. The Education Code's declining enrollment statutes enable the District to claim Fiscal Year 2006-07 revenue limit funding on the basis of the ADA for Fiscal Year 2005-06. The full extent of revenue losses attributable to enrollment declines will occur in special education, lottery and other funding sources, as those funding sources are not afforded the same benefit that is provided for revenue limit funding by the Education Code's declining enrollment statutes.

The Base Revenue Limit, the largest unrestricted General Fund revenue source, is projected to generate $3.66 billion in Fiscal Year 2006-07. The District's 2006-07 Final Adopted Budget reflects the Fiscal Year 2006-07 State Budget's full funding of the statutory 5.92% revenue limit and the reduced revenue limit deficit factor from 0.892% to 0.299%. The Fiscal Year 2006-07 State Budget also provides for partial revenue limit equalization, which would provide an additional $24.7 million in discretionary funding to the District. Based on these factors, the District's 2006-07 Base Revenue Limit per unit of ADA is projected to be $5,540.48 and the District's revenue limit funding is expected to increase by $93.5 million from Fiscal Year 2005-06. The Fiscal Year 2006-07 State Budget eliminates all but $30 million of mandated cost reimbursements, which results in a $14.7 million decrease in funding to the District. Overall, the Fiscal Year 2006-07 State Budget results in a net $10 million reduction to the

District's ongoing, unrestricted revenues. The reductions could be greater if mandated cost claims are substantially reduced, or even completely disallowed, through the State audit process. The District has budgeted $6.3 million in revenues from this source.

The loss in revenues is expected to exceed the cost savings resulting from the decreased enrollment, which is estimated at $40.2 million.

The $350 million in new State categorical programs for Fiscal Year 2006-07 is expected to increase both revenues and expenditures, and as a result is expected to have no net impact on the District's financial condition. Similarly, the $59.9 million (including amounts carried forward from Fiscal Year 2005-06) in anticipated revenues and costs resulting from Proposition 49's Before and After Schools funding is not expected to have a net impact on the District's General Fund ending balance. For Fiscal Year 2006-07, it is estimated that the special education program will require $571.7 million in General Fund support, and that K-3 class-size reduction encroachment will be approximately $80 million.

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

The following Table A-6 sets forth the District's Final Adopted Budgets for the General Fund for Fiscal Year 2003-04 through Fiscal Year 2006-07.

TABLE A-6

Los Angeles Unified School District
Final Adopted Budgets for the General Fund for Fiscal Year 2003-04 through Fiscal Year 2006-07
($ in millions)

	Final Adopted Budget 2003-04	Final Adopted Budget 2004-05[2]	Final Adopted Budget 2005-06[2]	Final Adopted Budget 2006-07[2]
Beginning Balance[1]	$ 579.0	$ 324.0	$ 349.6	$ 434.5
Revenue:				
State Apportionment	$2,239.3	$2,243.5	$ 2,883.9[3]	$2,880.5[3]
Property Taxes	1,057.7	1,195.9	668.0[3]	782.3[3]
Total Revenue Limit Revenues[4]	$3,297.0	$3,439.5	$3,551.9	$3,662.8
Federal	$1,062.5	$1,054.6	$1,016.6	$ 942.5
Other State	2,016.8	1,968.5	1,986.7	2,267.8
Other Local	92.5	91.3	93.1	105.6
Other Sources	12.0	97.1	86.8	128.0
Total Revenue[4]	$6,480.8	$6,651.0	$6,735.0	$7,106.7
Total Beginning Balance and Revenue[4]	$7,059.8	$6,975.0	$7,084.6	$7,541.3[4]
Expenditures:				
Certificated Salaries	$3,026.7	$2,871.8	$3,008.5	$3,137.2
Classified Salaries	944.3	913.2	883.4	971.1
Employee Benefits	1,212.4	1,296.8	1,328.5	1,347.8
Books and Supplies	566.5	399.8	404.9	672.3
Other Operating Expenses	656.6	643.2	610.5	733.8
Capital Outlay	66.4	59.6	52.8	76.7
Other Outgo/Other Uses	508.8	466.4	437.4	54.9
Total Expenditures[4]	$6,981.7	$6,650.9	$6,726.0	$6,993.8
Ending Balance[2] [4]	$ 78.1	$ 324.1	$ 358.6	$ 547.4

(1) Actual beginning balance for each Fiscal Year, except for Fiscal Year 2006-07 which is an unaudited actual.
(2) Reflects a change in the District's budgeting methodology introduced in Fiscal Year 2004-05 whereby the budget projects a Reserve for Anticipated Balances as a component of 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 Years 2005-06 and 2006-07 in comparison to prior Fiscal Years.
(4) Total may not equal sum of components due to rounding.

Source: Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2003-04 through 2006-07.

First Period Interim Financial Report for Fiscal Year 2006-07. The District's Board approved the First Period Interim Financial Report for Fiscal Year 2006-07 (the "First Interim Report") on December 12, 2006. The First Interim Report projects that the ending balance for Fiscal Year 2006-07 will be approximately $620.3 million and provides that the ending balance reserve level exceeds the minimum statutory requirement. The projected ending balance reflects (i) an increase of $113.3 million in legally restricted reserves attributable to categorical funds that will be spent once State guidelines are provided, (ii) a decrease in carryovers in the amount of $75.6 million and (iii) an increase of $36.3 million in unrestricted balances.

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

TABLE A-7

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

	Final Adopted Budget	Modified Budget	First Interim Report (December 12, 2006)
Beginning Balance	$ 434.5	$ 434.5	$ 434.5
Revenues/Other Sources	7,106.7	7,106.7	7,024.1
Expenditures/Other Uses	6,993.9	6,994.9	6,838.3
Operating Surplus	$ 112.8	$ 111.8	$ 185.8
Ending Balance	$ 547.3	$ 546.3	$ 620.3

(1) Totals may not add due to rounding.

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 auditor to the District and excerpts of its report for Fiscal Year ended June 30, 2006 are attached hereto as APPENDIX B. The District is required to file its audit report for the preceding fiscal year with the State Controller's Office, the CDE and the County Superintendent of Schools by December 15. The District filed its audit report for the Fiscal Year ended June 30, 2006 in compliance with such requirement. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

State Financial Accountability and Oversight Provisions. State Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for public school districts, enhancing the authority of the offices of the county superintendents of schools and establishing guidelines for emergency State aid apportionments. State Assembly Bill 2756 ("A.B. 2756"), effective June 21, 2004, revised the existing provisions of A.B. 1200 and imposed additional financial accountability and oversight requirements on public school districts. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the two subsequent fiscal years. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Under the provisions of A.B. 2756, for school districts that are certified as qualified or negative, the county superintendent of schools is required to report to the Superintendent of Public Instruction on the financial conditions of the school district and his or her proposed remedial actions and to take all actions that are necessary to ensure that the school district meets its financial obligations. The county office of education reviews the interim reports and certifications made by school districts and may change certification to qualified or negative if necessary. If a school district has a qualified or negative certification report in any year, the district may not issue non-voter approved debt instruments in that fiscal year or in the next succeeding fiscal year, unless the county office of education, using criteria from the state Superintendent of Public Instruction, determines repayment is probable. The Board approved the First Interim Report for Fiscal Year 2006-07 on December 12, 2006 and the submission of a positive certification to LACOE, with which LACOE concurred.

Audited Financial Statements and Accounting Policies. Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For selected excerpts from the District's most recent available audited financial statements, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

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

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

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

The following Table A-8 sets forth the District's audited General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2002 through June 30, 2006.

TABLE A-8

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

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

(1) Totals may not add due to rounding.
(2) Includes Operating Transfers and Support Costs transferred back to the General Fund.

Source: District's audited financial statements for Fiscal Years 2001-02 through 2005-06.

Collective Bargaining

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 Fiscal Year 2005-06 cost levels. The District's 2005-06 Final Adopted Budget included approximately $100 million to cover the cost of a 2.5% salary increase for nearly all employees and the increased costs of health benefits. The

District is negotiating with the collective bargaining units for the Fiscal Year 2006-07 contracts and is presently working under the terms of the expired contracts.

Retirement Systems

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

Set forth in Table A-9 below is the District's annual contributions to STRS for Fiscal Years 2000-01 through 2005-06 and the budgeted annual contribution for Fiscal Year 2006-07. Historically, the District has paid all required STRS annual contributions.

TABLE A-9

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 2000-01 through 2006-07
($ in millions)

Fiscal Year	District Contributions[1]
2000-01	$198.5
2001-02	205.9
2002-03	237.0
2003-04	241.2
2004-05	245.3
2005-06	251.5
2006-07[2][3]	232.9

(1) Includes payments to STRS for pension costs associated with the District's specially funded programs.
(2) Budgeted.
(3) Based on 2006-07 Final Adopted Budget; 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 2006-07 will be at least equal to its contribution for Fiscal Year 2005-06, 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 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 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 for Fiscal Year 2005-06; and Los Angeles Unified School District 2006-07 Final Adopted Budget for Fiscal Year 2006-07.

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 2005-06 was approximately \$138.2 million. The District's budgeted regular employer contribution to CalPERS for Fiscal Year 2006-07 is projected to be at least equal to its contribution for Fiscal Year 2005-06. The District's contribution to CalPERS is capped at 13.02% of gross salary expenditures. If the District's contribution rate to CalPERS is less than 13.02% of gross salary expenditures for a given year, then the State will reduce the District's revenue limit for that year by the amount of the difference between the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures and the District's actual contribution. Moreover, if the required contribution rate is greater than 13.02% for a given year, then the State will provide additional revenue limit to the District for that year by the amount of the difference between the District's actual contribution to CalPERS and the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures.

Set forth in Table A-10 below is the District's regular annual contributions to CalPERS for Fiscal Years 2000-01 through Fiscal Year 2005-06 and the budgeted annual contribution for Fiscal Year 2006-07. Historically, the District has paid all required CalPERS annual contributions.

TABLE A-10

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 2000-01 through 2006-07
(\$ in millions)

Fiscal Year	District Contributions(1)(2)
2000-01	\$ 77.0
2001-02	100.9
2002-03	111.1
2003-04	134.3
2004-05	136.2
2005-06	137.1
2006-07(3)	141.3

(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 school district's PERS savings in that year. Such recapture has occurred in each Fiscal Year since 1982-83.
(3) Projected, based on District's 2006-07 Final Adopted Budget.

Source: 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; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 for Fiscal Year 2005-06; and Los Angeles Unified School District 2006-07 Final Adopted Budget for Fiscal Year 2006-07.

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-11 below. The individual funding progress for the District itself is not available from STRS.

TABLE A-11

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)]	$(24.710) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)[(2)]	(20.311) billion

(1) Based on actuarial valuations as of June 30, 2004, using individual entry age normal cost method and 30 year amortization period. Actuarial assumptions included an assumed 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, projected 3.00% inflation and projected 2-5% post-retirement benefit increases. Reflects a funded ratio of 87.3%.

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

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

Set forth in Table A-12 below is the funded status of STRS and CalPERS for Fiscal Years 2000-01 through 2004-05.

TABLE A-12

Funded Status of STRS and CalPERS
Fiscal Years 2000-01 through 2004-05

Fiscal Year	STRS	CalPERS
2000-01	98.0%	111.9%
2001-02	N/A[(1)]	95.2
2002-03	82.0	87.7
2003-04	83.0	87.3
2004-05	85.7	N/A[(1)]

(1) Actuarial valuations not prepared or estimated.

Source: CalSTRS Defined Benefit Program Actuarial Valuation as of June 30 of each respective year. CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2005.

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

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

Set forth in Table A-13 below is the District's annual PARS contributions for Fiscal Years 2001-02 through 2005-06. The projected annual contribution for Fiscal Year 2006-07 is included in the budgeted annual contributions for CalPERS set forth in Table A-10.

TABLE A-13

Los Angeles Unified School District
Annual PARS Contributions
Fiscal Years 2001-02 through 2005-06
($ in millions)

Fiscal Year	District Contributions[(1)]
2001-02	$8.4
2002-03	7.4
2003-04	7.1
2004-05	6.6
2005-06	6.8

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

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

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

Other Post-Employment Benefits

In addition to employee health care costs, the District provides post-employment health care benefits in accordance with collective bargaining agreements. As of July 1, 2006, there are approximately 34,000 retirees who meet the eligibility requirements for these benefits. The District currently funds these benefits on a pay-as-you-go basis, paying an amount in each Fiscal Year equal to the benefits distributed or disbursed in that Fiscal Year. The amount paid by the District's General Fund for such benefits was $159.1 million in Fiscal Year 2002-03, $174.2 million in Fiscal Year 2003-04, $179.3 million for Fiscal Year 2004-05 and $192.9 million in Fiscal Year 2005-06. The District included $208.3 million for post-employment health care benefits for Fiscal Year 2006-07 in the District's 2006-07 Final Budget. The cost of retiree health care benefits in 2007-08 is subject to negotiation. The amount to be paid by the District's General Fund for retiree health care benefits in Fiscal Year 2007-08 is projected to be $209.7 million, assuming health benefit expenditures increase in Fiscal Year 2007-08 to the currently negotiated cap of $803.4 million and the mix of active to retiree costs does not change from the Fiscal Year 2006-07 estimated mix (70.9% for actives and 29.1% for retirees).

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

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

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

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

Insurance

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

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

The District is self-insured for its Workers' Compensation Program. Worker's compensation claims paid in Fiscal Years 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06 totaled approximately $98.6 million, $110.0 million, $116.3 million, $112.4 million and $96.8 million respectively. Such claims are estimated to be approximately $89.3 million for Fiscal Year 2006-07, 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 million for each incident with an aggregate of $100 million (coverage period of August 11, 1999 through August 11, 2019) and a Contractor's Pollution Liability ("CPL") insurance policy with $50 million of coverage provided per covered site (and $50 million of coverage in aggregate losses through August 11, 2006). The District filed a lawsuit in Los Angeles County Superior Court in March 2006 against AIG alleging the insurance carrier of reneging on its policy. The AIG CPL policy expired on August 11, 2006. The District purchased a new CPL policy providing $30 million of coverage from a combination of carriers.

The District implemented a second Owner Controlled Insurance Program (OCIP II) covering new construction and renovation projects funded by school bonds on May 1, 2006. 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 II, workers' compensation coverage with statutory limits, and primary and excess liability coverage with limits of $102 million have been underwritten by six major insurance carriers. Savings to the District over the next period of the construction program are estimated in the range of approximately $32-45 million.

Liabilities for loss and loss adjustment expenses under each program include the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported and estimates of expenses for investigating and adjusting reported and unreported losses. Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. The District believes that, given the inherent variability in any such estimates, the aggregate liabilities are within a reasonable range of adequacy. Individual reserves are continually monitored and reviewed, and, as settlements are made or reserves adjusted, differences are reflected in current operations. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006 — Note 9."

District Fiscal Policies

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

The Debt Management Policy is required to be reviewed annually. The most recent review led to the adoption of a revised policy by the Board on March 28, 2006. 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 as of July 1, 2006 divided by General Fund appropriations for Fiscal Year 2005-06. The District's current actual maximum fiscal year COPs debt service is $34.4 million, which is below the $105 million cap, and is 0.5% of General Fund appropriations, which is below the 2.0% to 2.5% permissible range. A target may be increased only through Board authorization each time a new debt is proposed, but is not intended to exceed the ceiling established in the Debt Management Policy.

The March 2006 revision of the District's Debt Management Policy revised (1) the limit of unhedged variable rate debt to 20% of outstanding certificates of participation or $100 million, whichever is less; and (2) the debt ratios and benchmarks to those set forth in Tables A-17 and A-18 below.

The District advance refunded and defeased $390 million in aggregate principal amount of its outstanding COPs in Fiscal Years 2004-05 and 2005-06 from proceeds of general obligation bonds, thereby changing the source of debt repayment from District resources such as the General Fund and developer fees to taxpayer levies. As of January 1, 2007, the District had $380.3 million of outstanding COPs (net of economically defeased COPs), of which $211.1 million are variable rate COPs. Given the District's projected average daily General Fund unrestricted cash balances of $349 million for Fiscal Year 2006-07, the District believes that its interest rate exposure on its variable rate COPs is hedged.

Table A-14 below sets forth the debt factors for certificates of participation debt issues which are to be repaid from the District's General Fund or other internal District resources.

TABLE A-14

Los Angeles Unified School District
Debt Management Policy – Debt Factors
(as of July 1, 2006)

Debt Factor	Target[(1)]	Ceiling[(1)]	Actual
COPs Debt Service Limit (gross)	2.0% of General Fund Appropriations	2.5% of General Fund Appropriations	0.5%
Annual COPs Gross Debt Service Cap[(2)]	$105 million		$34.4 million

(1) "General Fund Appropriations" includes said amounts based upon the District's Fiscal Year 2005-06 Final Adopted Budget.
(2) May increase with each approved issuance of certificates of participation.

Source: Los Angeles Unified School District.

Table A-15 below sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table A-18 also provides a summary of the District's performance against policy benchmarks for the District's General Obligation Bond and COPs debt and debt issued by overlapping agencies. These benchmarks pertain to large school districts whose ratings are in the double-A or higher rating category.

Due to the statistical dispersion of the underlying data for the benchmarks in Table A-18 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks. Nevertheless, the District believes that the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared.

TABLE A-15

Los Angeles Unified School District
Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2005)[1]

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	1.48%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	1.48%
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	2.93%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	2.93%
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$736	$1,129
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$847	$1,129
Overall Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$1,665	$2,305
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$2,639	$2,305

(1) Information in Table A-15 is as set forth in the District's Annual Debt Report submitted in March 2006 for the Fiscal Year ended June 30, 2005.

Source: Los Angeles Unified School District.

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

Under State law, the District is required to maintain only one of the operating reserves, the Reserve for Economic Uncertainties. In Fiscal Year 2006-07, this reserve has been funded at the current legally mandated minimum of 1.0%, or approximately $71.5 million. The other reserves may be funded and phased in annually based on the Board's actions, although the Chief Financial Officer of the District has not recommended any such funding at present.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District and is currently approximately $10.1 billion. The District's unused bonding capacity is approximately $4.0 billion. The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued the entire amount of general obligation bonds pursuant to a $2.4 billion authorization approved by voters in the April 8, 1997 election ("Proposition BB"). A $3.35 billion general obligation bond authorization was approved by the voters on November 5, 2002 ("Measure K"). The District issued the first series of Measure K general obligation bonds in March 2003 in the aggregate principal amount of $2.1 billion and expects to issue up to $600 million Measure K Series B Bonds in February 2007. A $3.87 billion general obligation bond authorization was approved by the voters on March 2, 2004 ("Measure R"). The District has issued $1.5 billion aggregate principal amount of Measure R bonds. A $3.985 billion general obligation bond authorization also was approved by the voters on November 8, 2005 ("Measure Y"). The District has issued $394.385 million aggregate principal amount of Measure Y bonds.

The following Table A-16 sets forth the voter authorized and unissued amounts for Proposition BB, Measure K, Measure R and Measure Y, prior to the issuance of the Bonds.

TABLE A-16

Voter Authorized Amounts
($ in thousands)

	Proposition BB Bonds	Measure K Bonds	Measure R Bonds	Measure Y Bonds
Authorization Amount	$2,400,000[(1)]	$3,350,000[(2)]	$3,870,000	$3,985,000
Authorized but Unissued	0	1,250,000	2,370,000	3,590,615

(1) Proceeds of five refunding bond issues refunded $1,325.095 million aggregate principal amount of the Proposition BB Bonds. See Table A-17 below.
(2) Proceeds of three refunding bond issues refunded $1,582.90 million aggregate principal amount of the Measure K Bonds. See Table A-18 below.

Source: Los Angeles Unified School District.

The following Tables A-17, A-18, A-19 and A-20 set forth the outstanding bonds issued under Proposition BB, Measure K, Measure R and Measure Y, respectively.

TABLE A-17

Proposition BB (Election of 1997) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$356,000[(1) (2)]	$ 125,700	July 22, 1997
Series B Bonds	350,000[(3)]	35,050	August 25, 1998
Series C Bonds	300,000[(1) (3)]	37,445	August 10, 1999
Series D Bonds	386,655[(1) (3)]	44,975	August 3, 2000
Series E Bonds	500,000[(1) (4)]	144,580	April 11, 2002
2002 Refunding Bonds[(6)]	258,375	254,085	April 17, 2002
Series F Bonds[(5)]	507,345	480,490	March 13, 2003
2004 Refunding Bonds[(6)]	219,125	218,835	December 21, 2004
2005 Refunding Bonds[(6)]	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B[(6)]	254,544	254,544	November 15, 2006
2007 Refunding Bonds, Series A-2[(6)]	136,055	-	January 31, 2007
		$2,063,379	

(1) $215.68 million principal amount of the Series A, C, D and E Bonds were refunded with the proceeds of the 2004 Refunding Bonds.

(2) $485.95 million principal amount of the Series A, B, C and D Bonds were refunded with the proceeds of the 2005 Refunding Bonds.

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

(4) $231.23 million principal amount of the Series E Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.

(5) $129.51 million principal amount of the Series F Bonds will be refunded with proceeds of the 2007 Refunding Bonds described in the forepart of this Official Statement. Refunded bonds not excluded from Outstanding Amount as of January 1, 2007.

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

Source: Los Angeles Unified School District.

TABLE A-18

Measure K (Election of 2002) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000[1] [2][3]	$1,632,020	March 5, 2003
2006 Refunding Bonds, Series A[4]	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B[4]	320,361	320,361	November 15, 2006
2007 Refunding Bonds, Series A-1[4]	1,153,195	-	January 31, 2007
		$2,084,706	

(1) $131.94 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series A.
(2) $330.15 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.
(3) $1,120.81 million principal amount of the Series A Bonds will be refunded with proceeds of the 2007 Refunding Bonds described in the forepart of this Official Statement. Refunded bonds not excluded from Outstanding Amount as of January 1, 2007.
(4) Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-19

Measure R (Election of 2004) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$ 72,630	$ 55,780	September 23, 2004
Series B Bonds	60,475	37,560	September 23, 2004
Series C Bonds	50,000	47,170	September 23, 2004
Series D Bonds	16,895	12,855	September 23, 2004
Series E Bonds	400,000	371,060	August 10, 2005
Series F Bonds	500,000	500,000	February 16, 2006
Series G Bonds	400,000	400,000	August 17, 2006
		$1,424,425	

Source: Los Angeles Unified School District.

TABLE A-20

Measure Y (Election of 2005) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$ 56,785	$ 56,785	February 22, 2006
Series B Bonds	80,200	80,200	February 22, 2006
Series C Bonds	210,000	210,000	February 22, 2006
Series D Bonds	47,400	47,400	February 22, 2006
		$394,385	

Source: Los Angeles Unified School District.

Certificates of Participation. As of January 1, 2007, 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 $388.4 million, representing approximately $571.3 million in total debt service. The following Table A-21 sets forth the District's gross lease obligations with respect to its outstanding certificates of participation.

TABLE A-21

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

Fiscal Year Ending June 30	Paid From General Fund	Paid From Developer Fees[2]	Total
2007	$ 5,235.2	$ 6,422.6	$ 11,657.8
2008	11,483.9	21,397.7	32,881.7
2009	17,658.8	14,670.5	32,329.2
2010	19,291.6	14,585.8	33,877.4
2011	19,281.8	14,588.4	33,870.2
2012	19,288.1	13,454.6	32,742.6
2013	16,735.8	13,436.5	30,172.3
2014	16,735.8	16,138.4	32,874.2
2015	16,729.0	10,818.3	27,547.3
2016	14,328.0	10,785.0	25,113.0
2017	14,318.8	10,734.2	25,053.0
2018	14,320.5	10,783.2	25,103.8
2019	14,313.1	4,152.5	18,465.6
2020	14,307.1	4,156.0	18,463.1
2021	14,298.0	4,151.8	18,449.8
2022	14,293.7	4,146.2	18,439.9
2023	14,285.5	4,146.7	18,432.2
2024	14,280.4	4,144.1	18,424.4
2025	14,247.2	4,141.0	18,388.1
2026	14,494.2	4,139.4	18,633.6
2027	14,486.4	0.0	14,486.4
2028	14,472.6	0.0	14,472.6
2029	14,455.4	0.0	14,455.4
2030	12,329.2	0.0	12,329.2
2031	12,309.4	0.0	12,309.4
2032	12,303.2	0.0	12,303.2
Total	$380,282.7	$190,992.9	$571,275.5

(1) The District has assumed certain interest rates for the variable rate lease obligations included in Table A-24 above.
(2) In the event that insufficient developer fees are available to pay the indicated lease obligations, the General Fund is obligated to pay said obligations.

Source: Los Angeles Unified School District.

Other Long Term Obligations. The following Table A-22 summarizes the District's other long-term obligations as of June 30, 2006.

TABLE A-22

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

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

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

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

Future Financings

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

General Obligation Bonds. The District has $1.25 billion authorized and unissued general obligation bond authorization remaining under Measure K, $2.37 billion authorized and unissued general obligation bond authorization remaining under Measure R and $3.591 billion authorized and unissued general obligation bond authorization remaining under Measure Y. The District currently anticipates semi-annual issuances of additional series of general obligation bonds under its Measure K authorization, Measure R authorization and Measure Y authorization over the next several years to finance various elements of the District's capital plan. The District expects to issue up to $600 million of general obligation bonds pursuant to the Measure K Authorization in February 2007. The District may issue refunding bonds to refund outstanding general obligation bonds from time to time, depending on market conditions.

Certificates of Participation. The District expects that, from time to time, additional capital projects will be approved by the Board for funding through the execution and delivery of Certificates of Participation ("COPs"). Approximately $150 million of COPs are expected to be issued in Fiscal Year 2006-07 to fund a parking garage near the District's administration headquarters and information technology projects.

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. On November 9, 2006, the District issued $350 million 2006-07 Tax and Revenue Anticipation Notes, which mature on December 3, 2007.

Overlapping Debt Obligations

Set forth on Table A-23 on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated January 1, 2007. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table A-23 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-23) 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-23
Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of January 2, 2007

2006-07 Assessed Valuation:	$402,608,836,539
Redevelopment Incremental Valuation:	32,004,919,928
Adjusted Assessed Valuation:	$370,603,916,611

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/07
Los Angeles County	45.684%	$ 3,835,172
Los Angeles County Flood Control District	46.257	58,917,541
Metropolitan Water District	22.725	88,528,646
Los Angeles Community College District	81.786	822,112,872
Pasadena Area Community College District	0.001	939
Los Angeles Unified School District	**100.**	**5,966,895,000**(1)
City of Los Angeles	99.914	1,410,683,768
Other Cities	Various	12,536,222
Palos Verdes Library District	5.021	494,317
City Community Facilities Districts	100.	144,435,000
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.	63,640,000
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.914	158,943,191
City of Los Angeles Assessment District No. 1	100.	10,508,999
Other City and Special District 1915 Act Bonds	100.	28,505,000
Los Angeles County Regional Park & Open Space Assessment District	45.684	138,986,717
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$8,909,023,384

DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Los Angeles County General Fund Obligations	45.684%	$ 529,410,892
Los Angeles County Pension Obligations	45.684	336,728,721
Los Angeles County Superintendent of Schools Certificates of Participation	45.684	9,053,322
Pasadena Area Community College District Certificates of Participation	0.001	39
Los Angeles Unified School District Certificates of Participation	**100.**	**402,219,455**
City of Los Angeles General Fund and Judgement Obligations	99.914	1,059,293,224
Other City General Fund and Pension Obligations	Various	173,549,465
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	55,958,677
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,566,213,795
Less: **Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academy Bonds)**		**5,711,800**
Los Angeles Unified School District (economic defeasance of 2005 Qualified Zone Academic Bonds resulting from investment agreement)		**8,136,105**
City self-supporting bonds		13,227,016
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,539,138,874
GROSS COMBINED TOTAL DEBT		$11,475,237,179(2)
NET COMBINED TOTAL DEBT		$11,448,162,258

(1) Excludes 2007 Refunding Bonds described in the forepart of this Official Statement.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:	
Direct Debt ($5,966,895,000)	**1.48%**
Total Overlapping Tax and Assessment Debt	2.21%

Ratios to Adjusted Assessed Valuation:	
Gross Combined Direct Debt ($6,369,114,455)	**1.72%**
Net Combined Direct Debt ($6,355,266,550)	**1.71%**
Gross Combined Total Debt	3.10%
Net Combined Total Debt	3.09%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $880,298

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

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

Article XIIIA of the State Constitution

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

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

Legislation Implementing Article XIIIA

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

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

All taxable property is shown at full 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 State Constitution

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

Article XIIIC and Article XIIID of the State Constitution

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

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

Proposition 62

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

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

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

Proposition 98

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

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

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

Proposition 39

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

Proposition 1A

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

State School Facilities Bonds

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

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

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

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

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

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

Future Initiatives

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

REGIONAL ECONOMY

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

Income

The following Table A-24 summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2002 through 2005.

TABLE A-24

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

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

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

(2) In 2002, Claritas Inc., the publisher of Sales and Marketing Management, altered the methodology used in order to produce current year estimates. Therefore, 2001 estimates are not available.

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

Set forth in Table A-25 below is the distribution of effective buying income by certain income groupings per household for the City, the County and the State.

TABLE A-25

Income Groupings 2005
(Percent of Households)

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

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

Employment

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

Table A-26 below summarizes the development of wage and salary employment in the County during the 2001-2005 period.

TABLE A-26

Labor Force and Employment in Los Angeles County[(1)]

	2001	2002	2003	2004	2005
Civilian Labor Force[(2)]	4,752,900	4,769,100	4,769,700	4,776,100	4,821,200
Employment	4,483,400	4,445,800	4,436,900	4,465,300	4,564,700
Unemployment	269,500	323,300	332,800	310,800	256,500
Unemployment Rate	5.7%	6.8%	7.0%	6.5%	5.3%
Wage and Salary Employment[(3)]:					
Farm	8,400	7,800	7,800	7,600	7,500
Natural Resources and Mining	3,800	3,700	3,800	3,800	3,700
Construction	136,800	134,500	134,600	140,400	148,200
Manufacturing	577,900	534,800	500,000	483,600	470,400
Trade, Transportation and Utilities	789,800	782,700	774,900	781,600	792,700
Information	226,300	207,300	202,300	211,900	209,600
Financial Activities (Finance, Insurance, Real Estate)	228,900	232,600	239,800	241,600	243,700
Business and Professional Services	588,000	575,000	559,900	562,400	571,500
Education and Health Services	432,200	450,400	460,400	467,000	469,700
Leisure and Hospitality	348,500	354,200	362,600	372,800	377,400
Other Services	143,200	145,600	145,500	144,700	146,000
Government	598,300	606,100	599,300	587,100	583,800
Total	4,082,000	4,034,600	3,990,100	4,024,100	14,024,100

(1) Columns may not add to totals due to independent rounding. All information updated per March 2005 Benchmark.
(2) Based on place of residence.
(3) Based on place of work.
Source: State Employment Development Department, Labor Market Information Division.

Commercial Activity

The following Table A-27 sets forth the history of taxable transactions in the County for the years 2001 through 2005.

TABLE A-27

County of Los Angeles
Taxable Transactions
($ in thousands)

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

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

Leading County Employers

The economic base of the County is diverse with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The top twenty-four major employers in the County are set forth below in Table A-28.

TABLE A-28

Los Angeles County
Major Non-Governmental Employers

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

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

Construction

The following Table A-29 sets forth the valuation of permits for residential buildings and new single-family and multi-family dwelling units in the City for the years 2001 to 2005 and benchmark data for 2006.

TABLE A-29

City of Los Angeles
Permit Valuations and Units of Construction
2001 to 2006
(dollars in thousands)

Year	Valuation Residential	New Dwelling Units Single Family	New Dwelling Units Multi-Family	Total Units
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	2,629,470	2,001	9,549	11,550
2006(1)	1,789,776	1,499	7,349	8,848

(1) July 2006 Benchmark.
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.

"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, 2006

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

Independent Auditors' Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District as of June 30, 2006, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 14 and the schedules of funding progress on pages 48 and 50 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information listed in the supplementary section and the information on pages 151 to 156 in the state and federal compliance information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the introductory section, the statistical section, and pages 158 to 160 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

December 11, 2006

As management of the Los Angeles Unified School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-xi of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

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

Overview of the Basic Financial Statements

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

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

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

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

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

(Continued)

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

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

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

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

The District maintains 22 individual governmental funds. In the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances, separate columns are presented for General Fund, District bonds fund, and all others. Individual account data for each of the District bonds and all other nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

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

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-72 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 75-90 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $4.2 billion at the close of the most recent year.

By far the largest portion of the District's net assets (68.6%) reflects its investments in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

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

Net Assets (In Thousands)

As of June 30, 2006 and 2005:

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

(Continued)

Changes in Net Assets (In Thousands)

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

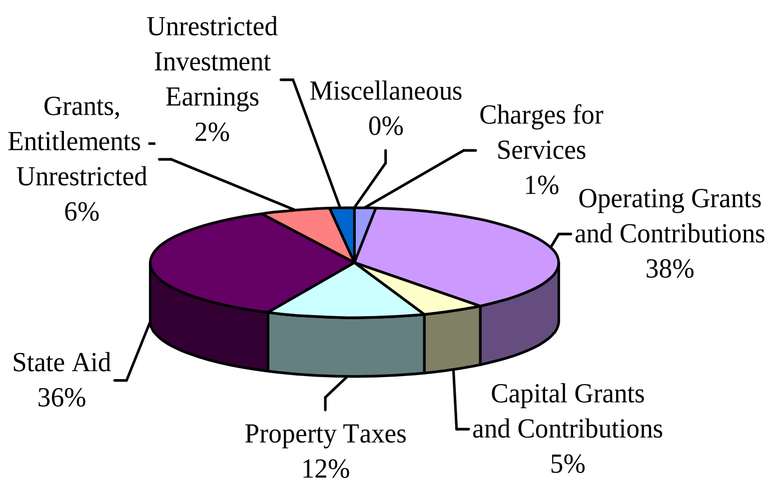
The District's net assets increased by $462.1 million in the current fiscal year. The major components of this increase are as follows:

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

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

Revenues by Source

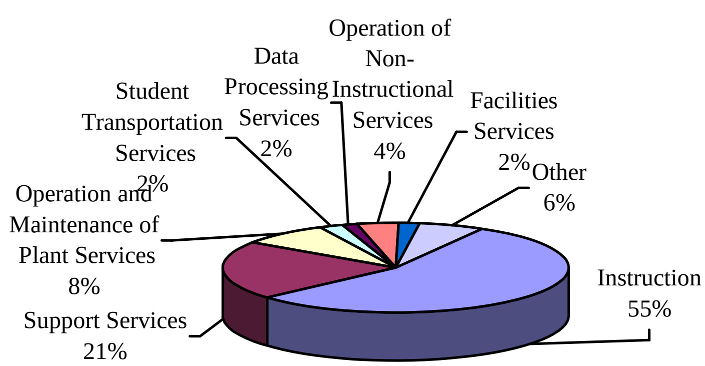
Year ended June 30, 2006



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

Expenses

Year ended June 30, 2006



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $289.8 million, while the total fund balance reached $434.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 4.5% of the total General Fund expenditures, while the total fund balance represents 6.8% of that same amount.

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

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

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

(Continued)

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

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

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

General Fund Budgetary Highlights

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

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

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

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

The $175.5 million variance in revenues between final budget and actual occurred primarily because multi-year categorical program revenues were budgeted in their entirety but earned only to the extent that expenditure occurred. The District has begun building its budget with both "authorized and estimated" revenue amounts which will enable staff to recognize the amount of unrealized revenue that is likely to occur as a result of budgeting full revenue for multi-year grants.

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

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

Capital Assets and Debt Administration

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

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

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

Capital Assets (net of accumulated depreciation)

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

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

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

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

Outstanding Obligations

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

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

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

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

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

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

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

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

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

State statutes limit the amount of general obligation bond debt a unified school district may issue to 2.5% of its total taxable property. The debt limitation for the District as of June 30, 2006 is $9.097 billion, which is in excess of the District's outstanding general obligation bond debt.

Additional information on the District's long-term obligations can be found in notes 9, 10 and 11 on pages 53-62 of this report.

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

State of California and Los Angeles Unified School District Fiscal Outlook

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

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

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

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

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

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

Bond Revenues

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

Requests for Information

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

(In thousands)

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

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

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2006

(In thousands)

Total fund balances – governmental funds	$	2,805,239
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $10,461,820 and the accumulated depreciation is $2,664,067.		7,797,753
Property taxes receivable will be collected this year, but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds.		41,360
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The assets and liabilities of the internal service fund are included within governmental activities.		(164,035)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(6,319,514)
Other assets – deferred charges (cost of bond issuance, net of amortization) not reflected in fund financials		17,398
Total net assets – governmental activities	$	4,178,201

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2006

(In thousands)

Total net changes in fund balances – governmental funds	$	255,011
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay ($1,532,861) exceeds depreciation ($194,242) and loss on equipment disposal ($24) in the period.		1,338,595
Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(1,318)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		94,981
Proceeds of new debt are reported as other financing sources in the governmental funds, but these receipts are considered long-term liabilities in the statement of net assets, including those used to refund older bonds and COPs, net of premium amortization.		(2,023,206)
Bond issuance costs are reported as expenditures in the governmental funds, but presented as deferred charges, net of amortization of issuance costs.		12,540
Payments to escrow agents for refunded bonds and COPs are reported as other financing uses in the governmental funds, but these payments include defeasement of long-term liabilities in the statement of net assets.		834,716
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues for this year.		(114,705)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave earned exceeded the amounts used.		(1,891)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(39,853)
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums, and claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		107,247
Changes in net assets of governmental activities	$	462,117

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

General Fund

Year ended June 30, 2006

(In thousands)

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

* Over (under)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

Governmental Activities – Internal Service Funds

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

Proprietary Funds

Governmental Activities – Internal Service Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Governmental Activities – Internal Service Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds – Pension Trust Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

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

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

(a) Reporting Entity

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

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

Blended Component Units

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

(Continued)

(b) Government-Wide and Fund Financial Statements

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

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

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

(c) Measurement Focus and Basis of Accounting

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

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

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

(Continued)

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

(d) Financial Statement Presentation

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

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

(e) Fund Accounting

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

Governmental Funds

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

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

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

Other Governmental Funds

The District has the following nonmajor governmental funds:

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

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

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

Proprietary Funds

The District has the following Proprietary Funds:

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

Under the full accrual basis of accounting that is generally accepted for Internal Service Funds, total estimated liabilities for self-insurance are recorded based on estimated claims liabilities, including the estimated liability for incurred but not reported claims. These liabilities have been presented at its full actuarial valuation. For the Workers' Compensation and Liability Self-Insurance Funds, the estimates are determined by applying an appropriate discount rate to estimated future claim payments. No discount is applied to estimated Health and Welfare Benefits Fund claims because they are generally paid within a short period of time after the claims are filed. For a number of years, the District has been accumulating a deficit in its Workers' Compensation Self-Insurance Fund, which was initially reflected in the 2003-2004 Consolidated Annual Financial Report. Because the District lacks sufficient financial resources to fund the total liability in 2005-2006, the deficit continues into the new fiscal year. Contributions in excess of current claims payments were applied towards the liability to help reduce the deficit. For fiscal year 2006-2007, the Workers' Compensation claims are budgeted at a level designed to prevent the deficit from increasing.

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

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

Fiduciary Funds

The District has the following Fiduciary Fund:

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

> *Annuity Reserve Fund* – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity as of June 30, 2006 is reserved to pay shares of unlocated participants and for other contingencies.
>
> *Attendance Incentive Reserve Fund* – The Attendance Incentive Reserve Fund is used to account for 50% of funds from salary savings as a result of reduced costs of absenteeism of the United Teachers of Los Angeles (UTLA) represented employees.

Agency Fund

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

(f) Budgetary Control and Encumbrances

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, under Assembly Bill 1200 (Chapter 1213/Statutes of 1991), utilizes a dual-adoption budget schedule. The District adopts a Provisional Budget prior to the State-mandated July 1 deadline and a Final Budget no later than September 8. These budgets are revised by the District's Board during the year to give consideration to unanticipated revenues and expenditures (see note 4 – budgetary appropriation amendments).

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

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

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

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

(g) Cash and Investments

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

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

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

(h) Short-term Interfund Receivables/Payables

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

(i) Inventories

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

(j) Capital Assets

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

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

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

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

(k) Contracts Payable

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

(l) Compensated Absences

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

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

(Continued)

Annually, 50% of the savings in the account is disbursed as cash payments to eligible teachers and the remaining 50% is deposited in the Attendance Incentive Reserve Fund, to be disbursed in a lump-sum distribution as employees retire or terminate their employment with the District. The plan is in compliance with the provisions of Education Code Section 42841.

(m) Long-term Obligations

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

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

(n) Revenue Limit Sources/Property Taxes

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

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

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

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment. As a result, a receivable has not been recorded for the related property taxes in the general fund as all amounts related to the state apportionment have been collected by June 30, 2006.

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

(o) Financial Reporting Change

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

(p) Estimates

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

(2) Tax and Revenue Anticipation Notes

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

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

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

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

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

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

The accompanying governmental fund balance sheet includes reconciliation between total fund balances – governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds." The details of the $6,319,514 difference are as follows (in thousands):

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

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that "Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $1,338,595 difference are as follows (in thousands):

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

(Continued)

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

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

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

Details of proceeds of new debt principal:

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

Details of payments to escrow agents of refunded debt:

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

(4) Budgetary Appropriation Amendments

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

(5) Cash and Investments (In Thousands)

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

Concentration of credit risk means the risk of loss attributed to the magnitude of an investment in a single issuer. For District funds in the county pool, the County's investment policy states that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, and its agencies and instrumentalities. In addition, no more than 10% may be invested in one money market mutual fund. As of June 30, 2006, the County did not exceed these limitations.

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

Workers' Compensation Fund Investments

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

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash in county treasury is not exposed to custodial credit risk since all county deposits are either covered by federal depository insurance or collateralized with securities held by the County. Deposits other than those with the County are also covered by federal depository insurance or collateralized at the rate of 110% of the deposits, although the collateral may not be held specifically in the District's name.

(6) Receivables/Payables

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

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

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

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

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

(7) Capital Assets

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

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

Depreciation expense was charged to the following functions:

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

(8) Retirement Plans

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

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

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

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

Schedule of Employer Contributions:

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

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

The most recent CalPERS actuarial valuation provides the following information:

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

*2005 and 2006 are not available.
[1]Includes inflation at 3.0%.

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

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

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

The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax-deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2005, there were approximately 1,300 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

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

Active plan members are required to contribute 8% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-2006 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Contributions to STRS for fiscal years ended June 30, 2006, 2005 and 2004 are as follows:

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

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

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

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

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

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

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

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

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

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

(c) Public Agency Retirement System (PARS)

The Omnibus Budget Reconciliation Act of 1990 (Internal Revenue Code Section 3121 (b) (7) (F)) requires state and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security. These employees are primarily part-time, seasonal and temporary employees (PSTs). This Act also requires that contributions for PSTs be vested immediately and permits any split of the minimum contributions between employee and employer.

On July 1, 1992, the District joined the PARS, a multiple-employer retirement trust established in 1990 by a coalition of public employers. The plan covers the District’s part-time, seasonal, temporary and other employees not covered under CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by district management based on agreements with various bargaining units. PARS is a defined contribution qualified retirement plan under Section 401 (a) of the Internal Revenue Code.

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

District employees covered under PARS total to 44,418 as of June 30, 2006. District's contributions to the plan for the last three fiscal years are as follows: 2005-2006 – $6,842,716, 2004-2005 – $6,635,829, and 2003-2004 – $7,117,416.

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

(d) Health and Welfare Benefits for Retirees

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

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

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

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

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

In order to maintain coverage, the retirees must continue to receive a STRS/CalPERS retirement allowance and must enroll in those parts of Medicare for which they are eligible. As of July 1, 2006, approximately 34,000 retirees now meet these eligibility requirements.

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

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

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

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

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

(e) Annuity Reserve Fund

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

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

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

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

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

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors or omissions; job-related illness or injury to employees; and natural disasters. Through the years, the District has established several self insurance funds (Internal Service Funds) as follows: the Workers' Compensation Self-Insurance Fund (1977); the Liability Self-Insurance Fund (1977) and the Health and Welfare Benefits Fund (1982). These funds account for and finance the uninsured risk of loss and pay for insurance premiums, management fees and related expenses. The District is self-insured for its Workers' Compensation Insurance Program and partially self-insured for the Health and Welfare and Liability Insurance Programs. Premium payments to Health Maintenance Organizations for medical benefits and to outside carriers for vision services, dental services and optional life insurance are paid out of the Health and Welfare Benefits Fund. The General, Child Development, and Cafeteria Funds contribute proportionately to the Liability Self-Insurance Fund. All Funds except Debt Service contribute to the Workers' Compensation Self-Insurance Fund and the Health and Welfare Benefits Fund.

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

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

(Continued)

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

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

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

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

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

The District has entered into Certificates of Participation (COPs) for the acquisition of school sites, relocatable classroom buildings, a new administration building, furniture and equipment and for various other construction projects, including the Bravo Medical Magnet Senior High School, the King-Drew Medical Magnet and the Vista Hermosa (formerly known as Belmont Learning Complex). These liabilities qualify as capital lease obligations in accordance with GASB Statement No. 13, *Accounting for Leases*. Lease payments are accounted for in the Debt Service Fund Type – Capital Services Fund. Future minimum lease payments are as follows (in thousands):

Certificates of Participation

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

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

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

On May 23, 2000, the District issued COPs 2000 Series A (Qualified Zone Academy Bonds Project) in the amount of $30,446,700, a first-of-its-kind bond under a federal program that offers investors tax credits rather than interest payments. Of this amount, $3,800,000 was issued on behalf of Fenton Avenue Charter School and $3,800,000 for Vaughn Next Century Learning Center. Scheduled payments are to be made annually through maturity in 2012. The proceeds from the issuance are to pay for the rehabilitation or repair of facilities and the acquisition and installation of equipment at 29 Schools to Career Academy Program school sites and at the two charter schools. This issue was partially refunded by COPs 2004 Series B in July 2004.

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

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

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

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

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

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

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

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

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

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

On May 18, 2005, the District issued variable-rate COPs 2005 Series A (Administration Building Project) in the amount of \$86,525,000. The 2005 A Certificates were used to refund the 2001C COPs in the amount of \$84.5 million, which resulted in a net present value savings of approximately \$9.4 million based on an assumed variable rate of 3.05% (15-year average of Bond Member Association (BMA)), semi annual interest payments, and 30/360 semi annual compounding. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2024. The interest rate on June 30, 2006 was 3.92%.

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

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

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

On December 1, 2005, the District issued COPs 2005 (2004-05 Qualified Zone Academy Bonds) in the amount of $10,000,000. The zero interest tax credit bonds are used for modernizing nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. Scheduled payments are to be made annually through maturity in 2020.

Other Leasing Arrangements

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

The District's operating leases consist of various leased facilities and office equipment (primarily copiers). The leased facilities have varying terms ranging from less than a year to 49 years. Some leases are month to month and a few are year to year. The leases expire over the next 24 years. Certain leases contain rent adjustment and renewal option provisions.

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

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

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

(11) Long-Term Obligations

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

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

* Net of unamortized premiums and discounts.

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

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

The General Obligation Bonds balance of $5,803,689,000, which includes unamortized bond premiums (net of unamortized charges) of $117,224,000, consists of (a) six issuances of Proposition BB bonds: Series “A” bonds, sold in July 1997 at $356.0 million par value, of which $18.5 million and $133.2 million were refunded in December 2004 and July 2005, respectively; Series “B” bonds, sold in August 1998 at $350.0 million par value, of which $90.9 million and $150.5 million were refunded in April 2002 and July 2005, respectively; Series “C” bonds, sold in August 1999 at $300.0 million par value, of which $70.8 million, $14.2 million and $124.3 million were refunded in April 2002, December 2004 and July 2005, respectively; Series “D” bonds, sold in August 2000 at $386.7 million par value, of which $101.0 million, $107.2 million and $76.6 million were refunded in April 2002, December 2004 and July 2005, respectively; Series “E” bonds, sold in April 2002 at $500.0 million par value, of which $75.8 million were refunded in December 2004; and Series “F” bonds, sold in March 2003 at $507.3 million par value; (b) Measure K Series “A” bonds, sold in February 2003 at $2.1 billion par value, of which $132.3 million were refunded in February 2006; (c) six issuances of Measure R bonds: Series “A” bonds at $72.6 million par value, Series “B” bonds at $60.5 million par value, Series “C” bonds at $50.0 million par value and Series “D” bonds at $16.9 million par value, all sold in September 2004 and all of which, except for Series C, were used to partially and fully refund certain certificates of participation; Series “E” bonds, sold in August 2005 at $400.0 million par value; and Series “F” bonds, sold in February 2006 at $500.0 million par value; (d) four issuances of Measure Y bonds sold in February 2006: Series “A” bonds at $56.8 million par value, Series “B” bonds at $80.2 million par value, Series “C” bonds at $210.0 million par value and Series “D” bonds at $47.4 million par value, all of which, except for Series C and $5.7 million of Series D, were used to partially or fully refund certain certificates of participation and (e) general obligation refunding bonds: 2004 Series “A-1” and “A-2” sold in December 2004 at $219.1 million par value, 2005 Series “A-1” and “A-2” sold in July 2005 at $467.7 million par value and 2006 Series “A” sold in February 2006 at $132.3 million par value, all of which were used to partially refund certain general obligation bonds as stated above.

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

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

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

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

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

The State School Building Aid Fund payable balance of $0.9 million at June 30, 2006 represents loans under the State Education Code Section 16310 for the replacement or rehabilitation of pre-1933 buildings. These loans are repaid with interest at varying rates, as specified by the State Allocation Board at the time of approval of each project application, from annual tax collections received by the Tax Override Fund. Principal and interest are to be paid in 20 equal annual amounts, not to exceed the amount that would be produced by a property tax levy of 4.375 cents per $100 of assessed value. It is anticipated that these loans will be paid off during the 2008-2009 fiscal year.

COPs and other capital leases are described in note 10.

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

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

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

(12) Interfund Transactions

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

Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. The following is a summary of interfund receivables and payables at June 30, 2006 (in thousands):

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

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

(b) Interfund Transfers

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

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

(13) Fund Equity

(a) Governmental Fund Types

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

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

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

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

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

(b) Proprietary Fund and Fiduciary Fund Types

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

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

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

(14) Contingencies

(a) General

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

(b) Grants

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

(Continued)

(c) Construction Contracts

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

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

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

(15) Proposition BB Bonds

Proposition BB, which was approved at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within the Los Angeles Unified School District, authorized the District to issue general obligation bonds in an amount not to exceed $2.4 billion. The first issue known as Series "A" was sold in July 1997 at a par value of $356 million. The second issue known as Series "B" was sold in August 1998 at a par value of $350 million. The third issue known as Series "C" was sold in August 1999 at a par value of $300 million. A fourth issue known as Series "D" was sold in August 2000 at a par value of $386.7 million. A fifth issue known as Series "E" was sold in April 2002 at a par value of $500 million. A sixth issue known as Series "F" was sold in March 2003 at a par value of $507.345 million. In April 2002, parts of Series B, C and D in the aggregate total of $262 million were refunded by a $258.4 million issue of 2002 General Obligation Refunding Bonds. In December 2004, parts of Series A, C, D and E in the aggregate total of $215.7 million were refunded by a $219.125 million issue of 2004 General Obligation Refunding Bonds. In July 2005, parts of Series A, B, C and D in the aggregate total of $485.95 million were refunded by a $467.675 million issue of 2005 General Obligation Refunding Bonds.

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

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

The Bonds represent a general obligation of the District. The Board of Supervisors of the County of Los Angeles is empowered and obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the Bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County and used solely for the payment of the Bonds and interest thereon when due.

(16) General Obligation Bonds – Proposition 39

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

On the November 5, 2002 ballot, Measure K, authorizing the District to issue up to $3.35 billion of General Obligation Bonds, was approved by 67.91% of the voters. These funds will be used to: build new neighborhood schools ($2.58 billion), repair aging and deteriorating classrooms ($526 million), improve Early Childhood Programs ($80 million), upgrade safety and technology ($66 million), expand public charter schools ($50 million), joint planning of new schools, parks and libraries ($10 million) and provide for library books at new schools and improve library technology ($38 million). The District issued the first series of these bonds, designated as "Los Angeles School District General Obligation Bonds, Election of 2002, Series A (2003)" in February 2003 at a par value of $2.1 billion. Part of this Series in the aggregate amount of $131.94 million was refunded in February 2006 by a $132.33 million issue of 2006 General Obligation Refunding Bonds. The District established a separate fund, Measure K Building Fund, to account for the income and expenditures of the bond proceeds. The District currently anticipates the issuance of three additional series over the next three years.

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

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

The first $212.8 million of Measure R Bonds include premium amounts of $12.8 million and principal amounts of: Series "A" of $72.63 million issued on September 15, 2004, Series "B" of $60.475 million issued on September 15, 2004, Series "C" of $50.0 million issued on September 15, 2004 and Series "D" of $16.895 million issued on September 22, 2004.

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

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

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

Measure Y or the Safe and Healthy Neighborhood Schools Repair and Construction Act of 2005 was passed and approved on November 8, 2005 by 66.1% of the votes cast by eligible voters within the District. It authorized the District to issue and sell up to $3.985 billion in General Obligation Bonds to provide funds for the renovation, modernization, construction, and expansion of school facilities. The District has established a separate Measure Y Building Fund to account for the income and expenditures of the bond proceeds.

The first $394.4 million of Measure Y bonds were issued on February 22, 2006 and include: Series “A” for $56.8 million, Series “B” for $80.2 million, Series “C” for $210.0 million and Series “D” for $47.4 million. All of the proceeds except for Series “C” were used to advance refund and defease $56.3 million of the 2002 Series B COPs, $78.9 million of the 2003 Series A COPs and $42.0 million of the 2004 Series A and B COPs. The Series “C” proceeds were used to fund school buses and other capital projects.

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

(17) State School Facilities Bonds

(a) Proposition 1A and Proposition 47

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

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

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

(b) Proposition 55

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

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

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

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

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

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

(18) Subsequent Event

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

APPENDIX C

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 the Bonds set forth on the inside cover page hereof, 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, ("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 Resolution 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 REDEMPTION.

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 Resolution 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 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.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

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

Ladies and Gentlemen:

We have acted as Bond Counsel to the Los Angeles Unified School District (the "District") in connection with the issuance of $1,289,250,000 aggregate principal amount of Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds Series A (the "Bonds"). The Bonds are being issued under provisions of Title 5, Division 2, Part 1, Chapter 3, Article 9 and Article 11 of the California Government Code (the "Act"), as amended, and pursuant to a resolution adopted by the Board of Education of the District (the "Board of Education") on December 12, 2006 (the "District Resolution").

In such capacity, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such other documents, instruments, proceedings or corporate records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

Based on the foregoing, we are of the opinion that under existing law:

(1) The District Resolution has been duly adopted by the District and constitutes a valid and binding obligation of the District enforceable upon the District.

(2) The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of ad valorem taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

(3) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District and others in connection with the Bonds, and we have assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

(4) Under existing state law, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the District Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting creditors' rights generally, and by equitable principles, whether considered in equity or at law. We express no opinion regarding the availability of equitable remedies.

We express no opinion as Bond Counsel regarding the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

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 $1,289,250,000 aggregate principal amount of "Los Angeles Unified School District (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A" (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on December 12, 2006 (the "Resolution"). 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 Resolution, 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 2006-2007 Fiscal Year (which is due not later than February 25, 2008), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (not more than sixty (60) days) prior to the date on which the Annual Report is to be provided pursuant to subsection (a), the Dissemination Agent shall give notice to the District that the Annual Report is so required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by said date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District of such failure to receive the Annual Report.

(c) If the District is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the Dissemination Agent is irrevocably instructed to file a notice to each Repository in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the District stating that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided or that the Annual Report has not been provided to each National Repository or the State Repository, if any.

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

- Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official

Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial 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, if any. 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 Resolution.

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 Resolution for amendments to the Resolution 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 Resolution, 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: _______________, 2007

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 (County of Los Angeles, California) 2007 General Obligation Refunding Bonds, Series A
Date of Issuance:	_________, 2007

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 California Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool (the "Treasury Pool") as described below. The composition and value of investments under management in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

Los Angeles County Pooled Surplus Investments

The Treasurer has the delegated authority to invest funds on deposit in the Treasury Pool. As of November 30, 2006, 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	$6.351
Schools and Community Colleges	9.675
Independent Public Agencies	1.443
Total	$17.469

Of these entities, the involuntary participants accounted for approximately 91.74%, and all discretionary participants accounted for 8.26% 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 April 4, 2006, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated December 27, 2006, the November 30, 2006 book value of the Treasury Pool was approximately $17.469 billion and the corresponding market value was approximately $17.470 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of November 30, 2006 approximately 38.95% of the pool investments mature within 60 days, with an average of 380.01 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of November 30, 2006.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	55.84%
Certificates of Deposit	21.49
Commercial Paper	19.24
Bankers Acceptances	0.00
Municipal Obligations	0.12
Corporate Notes & Deposit Notes	3.25
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.06

Pursuant to Section 27131 of the Government Code, all counties investing surplus funds are permitted to establish a county treasury oversight committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five committee members nominated by the Treasurer in accordance with that Section. The County Treasury Oversight Committee meets quarterly to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICIES

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100

FINANCIAL SECURITY ASSURANCE®

ENDORSEMENT NO. 1 TO MUNICIPAL BOND INSURANCE POLICY (California Insurance Guaranty Association)

ISSUER:

BONDS:

Policy No.:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered 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.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: ______________________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022 (212) 826-0100

Form 560NY (CA 1/91)

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 [PAYING AGENT/TRUSTEE] 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:

[PAR]
[LEGAL NAME OF ISSUE]

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 [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-CA-7
01/05

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FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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