SUPPLEMENT TO OFFICIAL STATEMENT

$467,675,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2005 General Obligation Refunding Bonds

consisting of

$346,750,000 **Series A-1**	**$120,925,000** **Series A-2**

The following supplements the information contained in the Official Statement, dated June 28, 2005 (the "Official Statement"), relating to the above-referenced bonds. All defined terms have the meanings set forth in the Official Statement.

As set forth on page 3 of the Official Statement, the description of the Proposition BB Prior Bonds that will be refunded with the proceeds of the Bonds is hereby supplemented to include the following Proposition BB Prior Bonds:

Proposition BB Prior Bonds Series	Maturity Date	Interest Rate	Principal Amount	Date of Payment or Redemption	Redemption Price	CUSIP Suffix
Series B 1998:	07/01/2011	4.700%	$920,000	07/01/2008	101%	CH8
Series C 1999:	07/01/2012	4.900%	$525,000	07/01/2009	101%	FB8

Page 3 of the Official Statement is hereby restated in its entirety, as attached hereto as Exhibit A to this Supplement.

Page 8 of the Official Statement is hereby restated in its entirety, as attached hereto as Exhibit B to this Supplement, to reflect (i) the corresponding revisions to the debt service amounts in the columns entitled "Unrefunded Election of 1997 Bonds," and "Fiscal Year Totals" to reflect the refunding of the Proposition BB Prior Bonds as supplemented above and (ii) the payment of the July 1, 2005 debt service payment.

The delivery of this Supplement to the Official Statement has been duly authorized by the District.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

The date of this Supplement is July 15, 2005.

EXHIBIT A

Set forth below is a description of the Proposition BB Prior Bonds that will be refunded with the proceeds of the Bonds.

BONDS TO BE REFUNDED
Base CUSIP Number: 544644

Proposition BB Prior Bonds Series	Maturity Date	Interest Rate	Principal Amount	Date of Payment or Redemption	Redemption Price	CUSIP Suffix
Series A 1997:						
	07/01/2022	5.400%	$ 25,105,000	07/01/2008	102%	BD8
	07/01/2017[(1)]	5.000	19,510,000	07/01/2008	102	
	07/01/2018[(1)]	5.000	20,510,000	07/01/2008	102	
	07/01/2019[(1)]	5.000	21,560,000	07/01/2008	102	
	07/01/2020[(1)]	5.000	22,670,000	07/01/2008	102	
	07/01/2021[(2)]	5.000	23,830,000	07/01/2008	102	BC0
			$133,185,000			
Series B 1998:						
	07/01/2011	4.700%	$ 920,000	07/01/2008	101%	CH8
	07/01/2012	4.800	1,545,000	07/01/2008	101	CK1
	07/01/2013	4.850	835,000	07/01/2008	101	CM7
	07/01/2014	4.900	1,610,000	07/01/2008	101	CP0
	07/01/2015	4.900	1,430,000	07/01/2008	101	CR6
	07/01/2016	5.000	1,855,000	07/01/2008	101	CT2
	07/01/2017	5.000	17,590,000	07/01/2008	101	CV7
	07/01/2018	5.000	18,470,000	07/01/2008	101	CW5
	07/01/2019[(1)]	5.000	19,395,000	07/01/2008	101	
	07/01/2020[(1)]	5.000	20,365,000	07/01/2008	101	
	07/01/2021[(1)]	5.000	21,380,000	07/01/2008	101	
	07/01/2022[(1)]	5.000	22,450,000	07/01/2008	101	
	07/01/2023[(2)]	5.000	23,575,000	07/01/2008	101	CX3
			$151,420,000			
Series C 1999:						
	07/01/2012	4.900%	$ 525,000	07/01/2009	101%	FB8
	07/01/2015	5.100	10,000	07/01/2009	101	FH5
	07/01/2016	5.150	10,000	07/01/2009	101	FK8
	07/01/2017	5.125	175,000	07/01/2009	101	FM4
	07/01/2018	5.000	15,180,000	07/01/2009	101	FN2
	07/01/2019	5.000	15,940,000	07/01/2009	101	FP7
	07/01/2020[(1)]	5.250	16,740,000	07/01/2009	101	
	07/01/2021[(1)]	5.250	17,615,000	07/01/2009	101	
	07/01/2022[(1)]	5.250	18,540,000	07/01/2009	101	
	07/01/2023[(1)]	5.250	19,515,000	07/01/2009	101	
	07/01/2024[(2)]	5.250	20,540,000	07/01/2009	101	FQ5
			$124,790,000			
Series D 2000:						
	07/01/2023[(1)]	5.375%	$24,195,000	07/01/2010	100%	
	07/01/2024[(1)]	5.375	25,495,000	07/01/2010	100	
	07/01/2025[(2)]	5.375	26,865,000	07/01/2010	100	JB4
			$76,555,000			
		Total	**$485,950,000**			

(1) Mandatory sinking fund payment.
(2) Term bond final maturity.

EXHIBIT B

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Obligation Bonds, Semi-Annual Debt Service

Payment Date	Unrefunded Election of 1997 Bonds[1]	Election of 1997 Bonds: 2002 and 2004 Refunding Bonds	2005 Refunding Bonds	Election of 2002 Bonds	Election of 2004 Bonds[2]	Fiscal Year Totals[1] [3]
01/01/06	$28,683,789.39	$12,416,873.75	$10,625,720.48	$52,368,578.13	$4,308,660.00	
07/01/06	93,113,789.39	12,706,873.75	11,879,687.50	58,263,578.13	37,853,660.00	$322,221,210.52
01/01/07	27,391,981.89	12,412,523.75	11,879,687.50	52,319,944.38	3,551,410.00	
07/01/07	94,641,981.89	12,712,523.75	11,879,687.50	62,489,944.38	38,571,410.00	327,851,095.04
01/01/08	25,808,573.76	12,408,023.75	11,879,687.50	52,210,616.88	2,700,772.50	
07/01/08	96,243,573.76	12,718,023.75	11,879,687.50	66,955,616.88	39,380,772.50	332,185,348.78
01/01/09	24,160,818.76	12,403,373.75	11,879,687.50	52,018,931.88	1,852,288.75	
07/01/09	97,825,818.76	12,718,373.75	11,879,687.50	71,698,931.88	40,262,288.75	336,700,201.28
01/01/10	22,497,960.01	12,398,648.75	11,879,687.50	51,723,731.88	957,436.25	
07/01/10	88,837,960.01	22,693,648.75	11,879,687.50	76,838,731.88	2,377,436.25	302,084,928.78
01/01/11	20,855,174.38	12,174,186.25	11,879,687.50	51,201,681.88	926,906.25	
07/01/11	66,400,174.38	46,189,186.25	11,879,687.50	82,371,681.88	2,406,906.25	306,285,272.52
01/01/12	19,725,101.88	11,286,003.75	11,879,687.50	50,471,151.88	893,606.25	
07/01/12	67,125,101.88	46,426,003.75	12,624,687.50	88,326,151.88	2,443,606.25	311,201,102.52
01/01/13	18,545,134.38	10,354,698.75	11,864,787.50	49,498,918.13	858,731.25	
07/01/13	68,430,134.38	48,759,698.75	11,889,787.50	94,573,918.13	2,473,731.25	317,249,540.02
01/01/14	17,233,319.38	9,269,378.75	11,864,287.50	48,433,560.63	822,393.75	
07/01/14	69,858,319.38	49,079,378.75	12,589,287.50	101,253,560.63	2,512,393.75	322,915,880.02
01/01/15	15,811,814.38	8,158,600.00	11,849,787.50	47,133,629.38	788,593.75	
07/01/15	53,256,814.38	68,528,600.00	12,399,787.50	108,473,629.38	2,548,593.75	328,949,850.02
01/01/16	14,788,556.88	6,561,075.00	11,840,162.50	45,503,704.38	756,913.75	
07/01/16	35,793,556.88	88,346,075.00	12,710,162.50	116,143,704.38	2,576,913.75	335,020,825.02
01/01/17	14,263,851.88	4,354,956.25	11,818,412.50	43,640,326.25	723,926.25	
07/01/17	36,653,851.88	54,894,956.25	47,883,412.50	124,335,326.25	2,608,926.25	341,177,946.26
01/01/18	13,704,911.88	3,040,875.00	10,847,437.50	41,488,256.88	688,582.50	
07/01/18	39,574,911.88	40,145,875.00	63,672,437.50	133,058,256.88	2,648,582.50	348,870,127.52
01/01/19	13,058,161.88	2,113,250.00	9,394,750.00	39,032,553.75	650,607.50	
07/01/19	59,923,161.88	21,728,250.00	65,149,750.00	148,557,553.75	2,685,607.50	362,293,646.26
01/01/20	11,887,474.38	1,622,875.00	8,000,875.00	36,161,460.00	599,732.50	
07/01/20	61,172,474.38	22,217,875.00	66,575,875.00	160,636,460.00	2,734,732.50	371,609,833.76
01/01/21	10,640,355.63	1,108,000.00	6,536,500.00	32,906,628.75	557,032.50	
07/01/21	62,480,355.63	22,728,000.00	68,061,500.00	174,071,628.75	2,777,032.50	381,867,033.76
01/01/22	9,329,084.38	567,500.00	4,998,375.00	29,379,523.75	511,522.50	
07/01/22	63,864,084.38	23,267,500.00	69,688,375.00	189,379,523.75	2,821,522.50	393,807,011.26
01/01/23	7,949,096.88	–	3,381,125.00	25,382,718.75	462,435.00	
07/01/23	73,339,096.88	–	69,036,125.00	207,072,718.75	2,872,435.00	389,495,751.26
01/01/24	6,328,509.38	–	1,739,750.00	20,846,875.00	410,017.50	
07/01/24	75,043,509.38	–	45,929,750.00	227,876,875.00	2,925,017.50	381,100,303.76
01/01/25	4,625,390.63	–	637,000.00	15,671,125.00	354,687.50	
07/01/25	76,875,390.63	–	26,117,000.00	207,461,125.00	2,979,687.50	334,721,406.26
01/01/26	2,794,181.25	–	–	10,895,418.75	295,625.00	
07/01/26	57,514,181.25	–	–	221,215,418.75	3,040,625.00	295,755,450.00
01/01/27	22,158,215.63	–	–	5,658,306.25	227,000.00	
07/01/27	18,516,625.00	–	–	119,278,306.25	3,107,000.00	168,945,453.13
01/01/28	18,070,750.00	–	–	116,444,093.75	155,000.00	
07/01/28	–	–	–	–	3,180,000.00	137,849,843.75
01/01/29	–	–	–	–	79,375.00	
07/01/29	–	–	–	–	3,254,375.00	3,333,750.00
01/01/30	–	–	–	–		
Total	$1,826,797,077.15	$738,511,685.00	$842,283,157.98	$3,810,724,378.87	$235,176,512.50	$7,453,492,811.50

(1) Preliminary, subject to change upon expected issuance of the Bonds.
(2) Reflects debt service prior to the issuance of the District's General Obligation Bonds, Election of 2004, Series E.
(3) The debt service coming due on January 1 and July 1 of any calendar year is paid from taxes levied during the fiscal year which ends on June 30 of such year.

NEW ISSUE – BOOK–ENTRY ONLY

DAC Bond®

Ratings:
Moody's: Aaa
S&P: AAA
Fitch: AAA
(See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Sidley Austin Brown & Wood LLP, Los Angeles, California, Bond Counsel, under existing law and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

$467,675,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2005 General Obligation Refunding Bonds
consisting of

$346,750,000
Series A-1

$120,925,000
Series A-2

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

The $346,750,000 Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds") and the $120,925,000 Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and collectively with the Series A-1 Bonds, the "Bonds") represent the general obligation of the Los Angeles Unified School District (the "District"). The Board of Supervisors of Los Angeles County is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, upon all property subject to taxation by the District, all as more fully described herein.

Interest on the Bonds is payable on January 1, 2006 and semiannually thereafter on each January 1 and July 1. Principal of the Bonds is payable on July 1 in each of the years and in the amounts set forth on the inside cover page hereof. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interests in the Bonds. Payments of principal of and interest on the Bonds will be made by Wells Fargo Bank, National Association, as Paying Agent, to DTC who 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" herein.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption" herein.

Payment of the principal of and interest on the Series A-1 Bonds when due will be insured by a municipal bond insurance policy to be issued by FGIC Insurance Company simultaneously with the delivery of the Series A-1 Bonds. Payment of the principal of and interest on the Series A-2 Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series A-2 Bonds. See "BOND INSURANCE" herein.

FGIC Financial Guaranty Insurance Company

MBIA

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

The Bonds will be offered when, as and if issued by the District and received by the Underwriters, subject to the approval of legality by Sidley Austin Brown & Wood LLP, Los Angeles, California, Bond Counsel. Sidley Austin Brown & Wood LLP, San Francisco, California has also acted as Disclosure Counsel to the District. Certain matters will be passed upon for the District by the District's General Counsel, and for the Underwriters by their counsel, Chapman and Cutler LLP, San Francisco, California. Tamalpais Advisors, Inc. and Kelling, Northcross & Nobriga, A Joint Venture, are serving as Co-Financial Advisors to the District in connection with the issuance of the Bonds. The Bonds, in book-entry form, will be available for delivery through DTC in New York, New York on or about July 20, 2005.

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

JPMorgan **Loop Capital Markets, LLC** **Siebert Brandford Shank & Co., LLC**

Date of the Official Statement: June 28, 2005

$467,675,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2005 General Obligation Refunding Bonds
consisting of

$346,750,000
Series A-1

$120,925,000
Series A-2

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

$346,750,000 Series A-1 Bonds
Base CUSIP Number:* 544644

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix
2012	$ 745,000	4%	3.25%	D46
2013	25,000	4	3.34	D53
2014	725,000	4	3.43	D61
2015	550,000	3 1/2	3.52	D79
2016	870,000	5	3.60	D87
2017	33,815,000	5 1/2	3.70	E29
2017 (1)	2,250,000	3.65	3.70	D95
2018	38,035,000	5 1/2	3.77	E37
2019 (1)	40,150,000	5	3.83 (2)	E45
2020 (1)	42,190,000	5	3.88 (2)	E52
2021 (1)	44,325,000	5	3.92 (2)	E60
2022 (1)	46,625,000	5	3.96 (2)	E78
2023 (1)	46,690,000	5	4.00 (2)	E86
2024 (1)	400,000	4	4.01	E94

$49,355,000 5% Term Bonds due July 1, 2025 — Yield 4.02%(2); CUSIP*: 544644F28

$120,925,000 Series A-2 Bonds
Base CUSIP Number:* 544644

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix
2018	$14,790,000	5 1/2%	3.77%	F36
2019 (1)	15,605,000	5	3.83 (2)	F44
2020 (1)	16,385,000	5	3.88 (2)	F51
2021 (1)	17,200,000	5	3.92 (2)	F69
2022 (1)	18,065,000	5	3.96 (2)	F77
2023 (1)	18,965,000	5	4.00 (2)	F85
2024 (1)	19,915,000	5	4.01 (2)	F93

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(1) Subject to optional redemption on or after July 1, 2015. See "THE BONDS — Redemption" herein.

(2) Yield to July 1, 2015 par call date.

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

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

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

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

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR 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 and in any continuing disclosure by the District, in any press release and 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

District Board of Education

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

District Administrators

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

BOND COUNSEL/DISCLOSURE COUNSEL

Sidley Austin Brown & Wood LLP
Los Angeles, California

CO-FINANCIAL ADVISORS

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

PAYING AGENT

Wells Fargo Bank, National Association
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore Inc.
Denver, Colorado

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$467,675,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)
2005 General Obligation Refunding Bonds

$346,750,000 **Series A-1**	**$120,925,000** **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 and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Purpose

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of $346,750,000 principal amount of Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds"), and $120,925,000 principal amount of Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and together 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. Additional information on the District is provided in Appendices A and B hereto.

Authority for Issuance; Purpose of the Prior Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and other applicable law and pursuant to a resolution adopted by the Board of Education of the District on June 14, 2005 authorizing the issuance of not to exceed $600,000,000 of general obligation refunding bonds (the "Resolution"). See "PLAN OF FINANCE—Authority for Issuance; General."

The District received authorization at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within the District, to issue bonds in an amount not to exceed $2.4 billion to finance capital improvements to school buildings and to build new schools. As of June 1, 2005, the District has issued all $2.4 billion of such bonds (the "Proposition BB Prior Bonds"). A portion of the proceeds of the Bonds will be applied to advance refund and defease a portion of the Proposition BB Prior Bonds. See "PLAN OF FINANCE."

Security and Source of Payment for the Bonds

The Bonds represent a general obligation of the District; the Board of Supervisors of the County has the power and is obligated to annually 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

Payment of the principal of and interest on the Series A-1 Bonds when due will be insured by a municipal bond insurance policy to be issued by FGIC Insurance Company simultaneously with the delivery of the Series A-1 Bonds. Payment of the principal of and interest on the Series A-2 Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series A-2 Bonds. 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 Wells Fargo 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 Government Code of the State of California, 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 Proposition BB 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 escrow funds established with escrow agents. The amount of funds deposited into such escrow funds, together with interest earnings thereon, will be sufficient to fully pay the principal of, and redemption premium (if any) and interest on the Refunded Bonds as the same shall become due upon maturity or pursuant to a call for redemption as shown in the table below.

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 sufficiency of the escrow funds to pay the Refunded Bonds as described above will be verified by the Verification Agent (defined herein). See "MISCELLANEOUS – Verification Agent."

Set forth below is a description of the Proposition BB Prior Bonds that will be refunded with the proceeds of the Bonds.

BONDS TO BE REFUNDED
Base CUSIP Number: 544644

Proposition BB Prior Bonds Series	Maturity Date	Interest Rate	Principal Amount	Date of Payment or Redemption	Redemption Price	CUSIP Suffix
Series A 1997:						
	07/01/2022	5.400%	$ 25,105,000	07/01/2008	102%	BD8
	07/01/2017[(1)]	5.000	19,510,000	07/01/2008	102	
	07/01/2018[(1)]	5.000	20,510,000	07/01/2008	102	
	07/01/2019[(1)]	5.000	21,560,000	07/01/2008	102	
	07/01/2020[(1)]	5.000	22,670,000	07/01/2008	102	
	07/01/2021[(2)]	5.000	23,830,000	07/01/2008	102	BC0
			$133,185,000			
Series B 1998:						
	07/01/2012	4.800%	$ 1,545,000	07/01/2008	101%	CK1
	07/01/2013	4.850	835,000	07/01/2008	101	CM7
	07/01/2014	4.900	1,610,000	07/01/2008	101	CP0
	07/01/2015	4.900	1,430,000	07/01/2008	101	CR6
	07/01/2016	5.000	1,855,000	07/01/2008	101	CT2
	07/01/2017	5.000	17,590,000	07/01/2008	101	CV7
	07/01/2018	5.000	18,470,000	07/01/2008	101	CW5
	07/01/2019[(1)]	5.000	19,395,000	07/01/2008	101	
	07/01/2020[(1)]	5.000	20,365,000	07/01/2008	101	
	07/01/2021[(1)]	5.000	21,380,000	07/01/2008	101	
	07/01/2022[(1)]	5.000	22,450,000	07/01/2008	101	
	07/01/2023[(2)]	5.000	23,575,000	07/01/2008	101	CX3
			$150,500,000			
Series C 1999:						
	07/01/2015	5.100%	$ 10,000	07/01/2009	101%	FH5
	07/01/2016	5.150	10,000	07/01/2009	101	FK8
	07/01/2017	5.125	175,000	07/01/2009	101	FM4
	07/01/2018	5.000	15,180,000	07/01/2009	101	FN2
	07/01/2019	5.000	15,940,000	07/01/2009	101	FP7
	07/01/2020[(1)]	5.250	16,740,000	07/01/2009	101	
	07/01/2021[(1)]	5.250	17,615,000	07/01/2009	101	
	07/01/2022[(1)]	5.250	18,540,000	07/01/2009	101	
	07/01/2023[(1)]	5.250	19,515,000	07/01/2009	101	
	07/01/2024[(2)]	5.250	20,540,000	07/01/2009	101	FQ5
			$124,265,000			
Series D 2000:						
	07/01/2023[(1)]	5.375%	$24,195,000	07/01/2010	100%	
	07/01/2024[(1)]	5.375	25,495,000	07/01/2010	100	
	07/01/2025[(2)]	5.375	26,865,000	07/01/2010	100	JB4
			$76,555,000			
		Total	**$484,505,000**			

(1) Mandatory sinking fund payment.
(2) Term bond final maturity.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds	Series A-1	Series A-2	Total
Principal Amount of Bonds	$346,750,000	$120,925,000	$467,675,000
Net Original Issue Premium	36,007,491	11,798,345	47,805,836
Total Sources	$382,757,491	$132,723,345	$515,480,836
Uses of Funds			
Deposit to Escrow Funds	$380,663,560	$132,085,156	$512,748,716
Underwriters' Discount	515,759	179,865	695,624
Costs of Issuance(1)	1,578,172	458,324	2,036,496
Total Uses	$382,757,491	$132,723,345	$515,480,836

(1) Includes bond counsel and disclosure counsel fees, rating agency fees, co-financial advisor fees, printing fees, bond insurance premium and other miscellaneous expenses.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of $467,675,000, comprised of $346,750,000 principal amount of Series A-1 Bonds and $120,925,000 principal amount of Series A-2 Bonds, 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 and interest on the Bonds are payable by the Paying Agent to DTC, who is obligated in turn to remit such principal and interest 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 (the "Dated Date"). Interest with respect to the Bonds is payable on January 1 and July 1 of each year (each, an "Interest Payment Date"), commencing January 1, 2006. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date (defined below) immediately preceding any interest payment date to and including such interest payment date, in which event it shall bear interest from such interest payment date, or unless it is authenticated on or before the Record Date preceding the first interest payment date, in which event it shall bear interest from its Dated Date. "Record Date" shall mean the 15th day of the month preceding an Interest Payment Date whether or not such day is a Business Day. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on July 1 in the years and amounts set forth on the inside cover page hereof.

The interest on each Bond is payable in lawful money of the United States of America to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the applicable Record Date, whether or not such day is a business day. If the book-entry system is discontinued, interest will be paid by (1) check 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 Series A-1 Bonds maturing on or before July 1, 2016, and on July 1, 2018, and a portion (in the amount of $33,815,000 and bearing interest at the rate of 5.50% per annum; CUSIP: 544644E29) of the Series A-1 Bonds maturing on July 1, 2017, will not be subject to redemption prior to their respective stated maturity dates. The Series A-1 Bonds maturing on or after July 1, 2019, and the remaining portion (in the amount of $2,250,000 and bearing interest at the rate of 3.65% per annum; CUSIP: 544644D95) of the Series A-1 Bonds maturing on July 1, 2017 will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2015, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date, without premium.

The Series A-2 Bonds maturing on July 1, 2018 will not be subject to redemption prior to their stated maturity date. The Series A-2 Bonds maturing on or after July 1, 2019 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, 2015, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date, without premium.

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 to be redeemed will be determined by lot.

Mandatory Sinking Fund Redemption. The Series A-1 Term Bonds maturing on July 1, 2025 are also subject to mandatory sinking fund redemption prior to their 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	$23,875,000
July 1, 2025*	25,480,000

* Maturity

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

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 and (ii) to a municipal registered securities depository. See APPENDIX E—"PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Each notice of redemption will contain the following information: (i) a statement that the Bonds or a designated portion thereof are to be redeemed, (ii) the numbers and CUSIP numbers of the Bonds to be redeemed, (iii) the date of notice and the date of redemption, (iv) the place or places where the redemption will be made, and (v) descriptive information regarding the Bonds including the Dated Date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bonds to be redeemed, together with interest accrued to said date, the redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable. The actual receipt by the Owner of any 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 sufficiency of the proceedings for the redemption of such Bonds.

Defeasance

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 County or the Paying Agent 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 premiums, if any; or

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

If the District has deposited funds pursuant to paragraphs (i) or (ii) above, then notwithstanding that any of such designated Bonds shall not have been surrendered for payment, all obligations of the District with respect to all of such designated outstanding Bonds shall cease and terminate, except only the obligation of the District and the Paying Agent to pay or cause to be paid from funds deposited pursuant to paragraphs (i) or (ii) above, to the owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

"Federal Securities" shall mean (i) direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America,

(ii) obligations the payment of principal of and interest on which are guaranteed as to full and timely payment by the United States of America or (iii) non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States of America.

Application and Investment of Bond Proceeds

A portion of the net proceeds from the sale of the Bonds will be deposited in escrow funds to be used to advance refund and defease the Refunded Bonds. See "PLAN OF FINANCE" herein. The remaining net proceeds from the sale of the Bonds will be used to pay costs of issuance, bond insurance premium, if any, and underwriting fees as set forth in "ESTIMATED SOURCES AND USES OF FUNDS" herein.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Description

The Bonds represent a general obligation of the District. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), sufficient for the payment of the principal of and interest on the Bonds as and when the same become due upon all property subject to taxation by the District. 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 bonds and refunding bonds of the District issued pursuant to the Authorization and interest thereon when due.

Fiscal Year Debt Service

The following table sets forth the 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."

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

Payment Date	Unrefunded Election of 1997 Bonds	Election of 1997 Bonds: 2002 and 2004 Refunding Bonds	2005 Refunding Bonds[1]	Election of 2002 Bonds	Election of 2004 Bonds	Fiscal Year Totals[2]
7/1/2005	$104,313,553.13	$12,718,726.12	-	$52,368,578.13	$17,777,912.50	$187,178,769.88
1/1/2006	28,291,865.64	12,416,873.75	$10,625,720.48	52,368,578.13	4,308,660.00	
7/1/2006	90,691,865.64	12,706,873.75	11,879,687.50	58,263,578.13	37,853,660.00	319,407,363.02
1/1/2007	27,050,808.14	12,412,523.75	11,879,687.50	52,319,944.38	3,551,410.00	
7/1/2007	90,070,808.14	12,712,523.75	11,879,687.50	62,489,944.38	38,571,410.00	322,938,747.54
1/1/2008	25,583,725.01	12,408,023.75	11,879,687.50	52,210,616.88	2,700,772.50	
7/1/2008	94,483,725.01	12,718,023.75	11,879,687.50	66,955,616.88	39,380,772.50	330,200,651.28
1/1/2009	23,976,263.76	12,403,373.75	11,879,687.50	52,018,931.88	1,852,288.75	
7/1/2009	90,251,263.76	12,718,373.75	11,879,687.50	71,698,931.88	40,262,288.75	328,941,091.28
1/1/2010	22,516,630.01	12,398,648.75	11,879,687.50	51,723,731.88	957,436.25	
7/1/2010	88,281,630.01	22,693,648.75	11,879,687.50	76,838,731.88	2,377,436.25	301,547,268.78
1/1/2011	20,889,656.88	12,174,186.25	11,879,687.50	51,201,681.88	926,906.25	
7/1/2011	67,354,656.88	46,189,186.25	11,879,687.50	82,371,681.88	2,406,906.25	307,274,237.52
1/1/2012	19,737,964.38	11,286,003.75	11,879,687.50	50,471,151.88	893,606.25	
7/1/2012	67,662,964.38	46,426,003.75	12,624,687.50	88,326,151.88	2,443,606.25	311,751,827.52
1/1/2013	18,545,134.38	10,354,698.75	11,864,787.50	49,498,918.13	858,731.25	
7/1/2013	68,430,134.38	48,759,698.75	11,889,787.50	94,573,918.13	2,473,731.25	317,249,540.02
1/1/2014	17,233,319.38	9,269,378.75	11,864,287.50	48,433,560.63	822,393.75	
7/1/2014	69,858,319.38	49,079,378.75	12,589,287.50	101,253,560.63	2,512,393.75	322,915,880.02
1/1/2015	15,811,814.38	8,158,600.00	11,849,787.50	47,133,629.38	788,593.75	
7/1/2015	53,256,814.38	68,528,600.00	12,399,787.50	108,473,629.38	2,548,593.75	328,949,850.02
1/1/2016	14,788,556.88	6,561,075.00	11,840,162.50	45,503,704.38	756,913.75	
7/1/2016	35,793,556.88	88,346,075.00	12,710,162.50	116,143,704.38	2,576,913.75	335,020,825.02
1/1/2017	14,263,851.88	4,354,956.25	11,818,412.50	43,640,326.25	723,926.25	
7/1/2017	36,653,851.88	54,894,956.25	47,883,412.50	124,335,326.25	2,608,926.25	341,177,946.26
1/1/2018	13,704,911.88	3,040,875.00	10,847,437.50	41,488,256.88	688,582.50	
7/1/2018	39,574,911.88	40,145,875.00	63,672,437.50	133,058,256.88	2,648,582.50	348,870,127.52
1/1/2019	13,058,161.88	2,113,250.00	9,394,750.00	39,032,553.75	650,607.50	
7/1/2019	59,923,161.88	21,728,250.00	65,149,750.00	148,557,553.75	2,685,607.50	362,293,646.26
1/1/2020	11,887,474.38	1,622,875.00	8,000,875.00	36,161,460.00	599,732.50	
7/1/2020	61,172,474.38	22,217,875.00	66,575,875.00	160,636,460.00	2,734,732.50	371,609,833.76
1/1/2021	10,640,355.63	1,108,000.00	6,536,500.00	32,906,628.75	557,032.50	
7/1/2021	62,480,355.63	22,728,000.00	68,061,500.00	174,071,628.75	2,777,032.50	381,867,033.76
1/1/2022	9,329,084.38	567,500.00	4,998,375.00	29,379,523.75	511,522.50	
7/1/2022	63,864,084.38	23,267,500.00	69,688,375.00	189,379,523.75	2,821,522.50	393,807,011.26
1/1/2023	7,949,096.88	-	3,381,125.00	25,382,718.75	462,435.00	
7/1/2023	73,339,096.88	-	69,036,125.00	207,072,718.75	2,872,435.00	389,495,751.26
1/1/2024	6,328,509.38	-	1,739,750.00	20,846,875.00	410,017.50	
7/1/2024	75,043,509.38	-	45,929,750.00	227,876,875.00	2,925,017.50	381,100,303.76
1/1/2025	4,625,390.63	-	637,000.00	15,671,125.00	354,687.50	
7/1/2025	76,875,390.63	-	26,117,000.00	207,461,125.00	2,979,687.50	334,721,406.26
1/1/2026	2,794,181.25	-	-	10,895,418.75	295,625.00	
7/1/2026	57,514,181.25	-	-	221,215,418.75	3,040,625.00	295,755,450.00
1/1/2027	22,158,215.63	-	-	5,658,306.25	227,000.00	
7/1/2027	18,516,625.00	-	-	119,278,306.25	3,107,000.00	168,945,453.13
1/1/2028	18,070,750.00	-	-	116,444,093.75	155,000.00	
7/1/2028	-	-	-	-	3,180,000.00	137,849,843.75
1/1/2029	-	-	-	-	79,375.00	
7/1/2029	-	-	-	-	3,254,375.00	3,333,750.00
1/1/2030	-	-	-	-		
Total	$1,914,642,657.78	$751,230,411.12	$842,283,157.98	$3,863,092,957.00	$252,954,425.00	$7,624,203,608.88

(1) Series A-1 and A-2 2005 General Obligation Refunding Bonds being sold pursuant to this Official Statement.

(2) The debt service coming due on January 1 and July 1 of any calendar year is paid from taxes levied during the fiscal year which ends on June 30 of such year.

Assessed Valuation of Property Within the District

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

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

The law provides, among other things, for accelerated recognition and taxation of increases in real property assessed valuation upon change in ownership of property or completion of new construction. Accordingly, each K-12 school district is to receive, on a timely basis and in proportion to its average daily attendance, allocations of revenue from such accelerated taxation remaining after allocations to each redevelopment agency in the county and, in accordance with various apportionment factors, to the county, the county superintendent of schools, each community college district, each city and each special district within the county.

In Fiscal Year 2004-05, the District's total net secured and unsecured assessed valuation is $331.9 billion. Shown in the following table is the net assessed valuation of property in the District since Fiscal Year 1995-96.

Los Angeles Unified School District
Historical Assessed Valuations
Fiscal Years 1995-96 through 2004-05
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total	Increase (Decrease) From Prior Year	Percent Increase (Decrease)
1996	$204,249,354	$15,537,813	$219,787,167	$ --	-- %
1997	200,262,164	16,103,648	216,365,812	(3,421,355)	(1.56)
1998	200,529,601	16,934,361	217,463,962	1,098,150	0.51
1999	205,280,714	18,081,722	223,362,436	5,898,474	2.71
2000	218,916,146	18,927,746	237,843,892	14,481,456	6.48
2001	233,797,971	20,142,603	253,940,574	16,096,682	6.77
2002	249,496,423	22,018,503	271,514,926	17,574,352	6.92
2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90
2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30
2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58

(1) Includes utility valuations.
Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2004 for Fiscal Years 1995-96 through 2003-04. Los Angeles County Auditor-Controller for Fiscal Year 2004-05.

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 which 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.

The District is a member of the California Statewide Delinquent Finance Authority (the "Tax Authority") through which the District sells its annual delinquent tax receivables to the Tax Authority in exchange for which the District receives 100% of the delinquent amount plus a premium.

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 set forth the details of and 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, the homeowner's exemption is 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 since Fiscal Year 1994-95.

Los Angeles Unified School District
Summary of Property Tax Levies, Collections and Tax Rates
Fiscal Years 1994-95 through 2003-04
($ 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]
1995	$442,794	$648,182	$841,289	$39,427	9.41%	1.004036%
1996	419,719	425,804	818,221	24,040	2.94	1.003358
1997	420,158	392,577	775,879	15,807	2.04	1.003338
1998	442,619	428,745	832,010	33,855	4.07	1.012017
1999	486,496	420,226	834,727	22,342	2.68	1.024749
2000	582,436	434,175	941,023	19,589	2.08	1.031528
2001	583,508	465,002	1,037,958	29,973	2.89	1.040765
2002	652,455	493,649	1,125,788	29,264	2.60	1.048129
2003	656,436	536,530	1,190,192	13,811	1.17	1.036973
2004	821,820	576,038	1,386,560	34,987	2.52	1.077145

(1) Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District as described below. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION–DISTRICT FINANCIAL INFORMATION–State Funding of Education."
(2) Includes collections from prior years.
(3) Includes prior years' delinquencies. The District participates in a countywide delinquent tax financing through which it sells its delinquent tax revenues and receives an upfront payment.
(4) Delinquent and other unpaid tax levies divided by total tax collections.
(5) Includes applicable tax rate related to the District's outstanding general obligation bonds.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2004.

As part of the Fiscal Year 1992-93 State budget resolution, the State required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund ("ERAF") in lieu of direct payments to school districts from the State General Fund. This transfer is commonly referred to as the "ERAF" shift. The Fiscal Year 1993-94 State budget adopted by the State Legislature required a similar shift of property taxes to school districts from local government entities, which shift of property taxes has continued until the Fiscal Year 2004-05. The Fiscal Year 2004-05 State Budget includes a $1.3 billion shift in local property taxes from cities, counties, special districts and redevelopment agencies to the ERAF accounts for school districts. However, the Fiscal Year 2004-05 State Budget also includes a $1.136 billion diversion of ERAF funds from school districts and community colleges to local government to offset the reduction in sales tax revenues to local governments to pay debt service on the State's economic recovery bonds. The Fiscal Year 2004-05 State Budget also contains a $2.8 billion reduction in ERAF for schools designed to replace the shift of vehicle license fee revenues from local governments to the State, with the State General Fund offsetting these transfers to hold school districts and community colleges harmless. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION–DISTRICT FINANCIAL INFORMATION–State Budget–Tax Shifts and Triple Flip."

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2004-2005 are set forth below.

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

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

(1) Excludes taxpayers with values derived from mineral rights and/or possessory interest. Historically, among the top ten taxpayers within the District are landowners with primary land use of oil and gas production, including Atlantic Richfield Company, Tosco Corporation and Ultramar Inc., which are not reflected in table above but were the top one, two and five taxpayers, respectively, within the District in 2003-04.
(2) Calculated based on a 2004-05 Local Secured Assessed Valuation of $311,060,694,712, which excludes unitary values and assessed values derived from mineral rights and/or possessory interests. Total 2004-05 Local Secured Assessed Valuation including unitary values and assessed value derived from mineral rights and/or possessory interests is $311,419,821,842 as reflected in table entitled "Los Angeles Unified School District Historical Assessed Valuations.
Source: California Municipal Statistics, Inc.

BOND INSURANCE

Series A-1 Bonds - Financial Guaranty Insurance Company

Financial Guaranty Insurance Company has supplied the following information for inclusion in this Official Statement. No representation is made by the District or the Underwriters as to the accuracy or completeness of this information. Reference is made to Appendix G for a specimen of Financial Guaranty Insurance Company's policy.

Payments Under the FGIC Policy. Concurrently with the issuance of the Series A-1 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty" or "FGIC") will issue its Municipal Bond New Issue Insurance Policy for the Series A-1 Bonds (the "FGIC Policy"). The FGIC Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Series A-1 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the District. Financial Guaranty 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 Financial Guaranty shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of Series A-1 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 Series A-1 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 Financial Guaranty. The term "nonpayment" in respect of a Series A-1 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Series A-1 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 Financial Guaranty. The FGIC Policy covers failure to pay principal of the Series A-1 Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Series A-1 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 Series A-1 Bonds is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Series A-1 Bond, appurtenant coupon or right to payment of principal or interest on such Series A-1 Bond and will be fully subrogated to all of the Series A-1 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 Series A-1 Bonds, Financial Guaranty may be granted certain rights under the Series A-1 Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series A-1 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. Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the FGIC Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact 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, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2005, and the years ended December 31, 2004 and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $14.8 billion, $59.5 billion and $42.4 billion par value of securities, respectively (of which approximately 71%, 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $84.4 million, $323.6 million and $260.3 million, respectively. For the three months ended March 31, 2005, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.5% of the risks it had written.

As of March 31, 2005, Financial Guaranty had net admitted assets of approximately $3.215 billion, total liabilities of approximately $2.040 billion, and total capital and policyholders' surplus of approximately $1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of March 31, 2005, the audited financial statements of Financial Guaranty as of December 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003, 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 – Series A-1 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 Financial Guaranty 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 Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series A-1 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.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings. The financial strength of Financial Guaranty 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 Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. 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 Series A-1 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 Series A-1 Bonds. Financial Guaranty does not guarantee the market price or investment value of the Series A-1 Bonds nor does it guarantee that the ratings on the Series A-1 Bonds will not be revised or withdrawn.

Neither Financial Guaranty 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 Series A-1 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the FGIC Policy under the heading "BOND INSURANCE – Series A-1 Bonds – Financial Guaranty Insurance Company" and in APPENDIX G – "SPECIMEN BOND INSURANCE POLICIES" herein. In addition, Financial Guaranty makes no representation regarding the Series A-1 Bonds or the advisability of investing in the Series A-1 Bonds.

Series A-2 Bonds - MBIA Insurance Corporation

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. No representation is made by the District or the Underwriters as to the accuracy or completeness of this information. Reference is made to Appendix G for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE – Series A-2 Bonds – MBIA Insurance Corporation" and with regard to the form of MBIA's specimen policy contained in APPENDIX G – "SPECIMEN BOND INSURANCE POLICIES" herein. Additionally, MBIA makes no representation regarding the Series A-2 Bonds or the advisability of investing in the Series A-2 Bonds.

MBIA Insurance Policy. MBIA's 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 Series A-2 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 MBIA's 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series A-2 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's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series A-2 Bonds. MBIA's 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 Series A-2 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series A-2 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series A-2 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series A-2 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 Series A-2 Bonds or presentment of such other proof of ownership of the Series A-2 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series A-2 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series A-2 Bonds in any legal proceeding related to payment of insured amounts on the Series A-2 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 Series A-2 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

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

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 Series A-2 Bonds/Securities, 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 Series A-2 Bonds/Securities. MBIA does not guaranty the market price of the Series A-2 Bonds/Securities nor does it guaranty that the ratings on the Series A-2 Bonds/Securities will not be revised or withdrawn.

MBIA Financial Information. As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of $10.6 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

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

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

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series A-2 Bonds/Securities 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, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.nibia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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.

TAX MATTERS

General

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

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

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

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

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

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

Original Issue Discount

The initial public offering price of certain of the Bonds (collectively, the "Discount Bonds") may be less than the principal amount of the Discount Bonds. The difference between the principal amount of a Discount Bond and its initial public offering price is original issue discount. Original issue discount on a Discount Bond accrues over the term of such Discount Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies and may result in some of the collateral federal tax consequences discussed above. Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Bond will increase the owner's adjusted basis in such Discount Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Bond upon the redemption, sale or other disposition of such Discount Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Bonds, other federal income tax consequences of owning and disposing of the Discount Bonds and any state and local tax consequences of owning and disposing of the Discount Bonds.

Original Issue Premium

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

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 2004-05, 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. 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. The District provided a notice of failure to file such Annual Report with each Nationally Recognized Municipal Securities Information Repository or the Municipal Securities Rulemaking Board, as applicable, through DAC. As of the date hereof, however, the District is in compliance with the Rule.

Limitation on Remedies

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

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a California statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a state statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such funds could be traced. The County on behalf of the District is expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Treasury Pool (as described in Appendix F hereafter referred to). See APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL" attached hereto. 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.

Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate (or certificates) 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 Sidley Austin Brown & Wood LLP, Los Angeles, California, Bond Counsel. The proposed form of Bond

Counsel opinion is contained in Appendix D hereto. Sidley Austin Brown & Wood LLP, San Francisco, California acted as Disclosure Counsel to the District. Certain legal matters will be passed upon for the Underwriters by Chapman and Cutler LLP. Certain legal matters will be passed upon for the District by the District's General Counsel. None of Bond Counsel, Disclosure Counsel or Underwriters' Counsel undertake any responsibility for the accuracy, completeness or fairness of this Official Statement.

MISCELLANEOUS

Ratings

Moody's, S&P and Fitch Ratings have assigned their municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Bonds with the understanding that upon the delivery of the Bonds, FGIC will issue its municipal bond insurance policy with respect to the Series A-1 Bonds, and MBIA will issue its municipal bond insurance policy with respect to the Series A-2 Bonds. Moody's, S&P and Fitch Ratings have also assigned underlying ratings of "Aa3," "AA-" and "A+," 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 rating agency, and any explanation of the significance of such rating may be obtained only from the issuing rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, telephone: (212) 533 0300, Standard & Poor's, 55 Water Street, New York, New York 10041, telephone: (212) 438 2124 and Fitch Ratings, One State Street Plaza, New York, New York, telephone: (212) 908-0500. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

Co-Financial Advisors

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

Verification Agent

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

Underwriting

The Bonds are being purchased by the underwriters listed on the front cover hereof (collectively, the "Underwriters", for whom Goldman, Sachs & Co. is acting as representative), at the purchase price of $514,785,212.04 (which reflects an underwriters' discount of $695,624.01 and a net original issue premium of $47,805,836.05). The Bond Purchase Agreement pursuant to which the Underwriters are purchasing the Bonds (the "Purchase Contract") 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 Contract.

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

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the 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.

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 to be construed as a contract or agreement between the District and the purchasers or owners of any of the Bonds.

Execution and Delivery

The District's Board has duly authorized the 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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APPENDIX A

DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

The information in this Appendix concerning the operations of the Los Angeles Unified School District (the "District") and the District's finances is provided to assist investors in evaluating the Bonds. Investors must read the entire Official Statement, including Appendix A, to obtain information essential to making an informed investment decision. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the forepart of this Official Statement.

DISTRICT GENERAL INFORMATION

District Organization

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 boundaries for the District are about 80% coterminous with the City of Los Angeles, 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 of Los Angeles and became a unified school district in 1960.

District Governance; Senior Management

The District is governed by a seven-member Board of Education (the "Board") elected by voters within the District to serve alternating four-year terms. The chief executive officer of the District is the Superintendent of Schools (the "Superintendent"). Roy Romer, former Governor of Colorado, serves as Superintendent. Brief biographical information for Mr. Romer, as well as other senior management of the District, is set forth below.

<u>Roy Romer, Superintendent of Schools</u>. Mr. Romer was named Superintendent of Schools of the District by the Board of Education on June 6, 2000 and became the District's 45th Superintendent. In July 2004, his contract was renewed through June 2007. Mr. Romer's career experience has included the private sector, politics and education.

Superintendent Romer's top priorities at the District have been the improvement of math and reading scores in the elementary grades and secondary schools. Another top priority of Superintendent Romer is the construction of new schools to relieve overcrowding, as well as the development of small learning communities at new schools and in existing large high school complexes.

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

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

Dan M. Isaacs, Chief Operating Officer. Dan M. Isaacs was named Chief Operating Officer of the District in April 2005. Prior to being named as Chief Operating Officer, Mr. Isaacs was the Administrator of the Associated Administrators of Los Angeles ("AALA") which represents the middle managers in the District in ensuring that members have the protection of due process, as contained in the collective bargaining agreement between the AALA and the District. From 1993 to 2000, Mr. Isaacs was the Assistant Superintendent of School Operations of the District, where he coordinated 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. Isaac's experience also includes serving as the Principal of several high schools.

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

Kevin S. Reed, General Counsel. Kevin S. Reed was named General Counsel to the District in May 2004, after over three years representing the District as outside counsel in a wide range of litigation matters and regulatory affairs. He was a former partner at Strumwasser & Woocher LLP in Santa Monica, California, a small public-policy oriented firm that represents a broad spectrum of governmental entities. Mr. Reed joined Strumwasser & Woocher in 1996 after 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. As a partner with Strumwasser & Woocher, Mr. Reed played a leading role in the firm's education law, regulatory, and civil litigation practices.

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 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 a cum laude graduate of Harvard Law School (1989).

Charles A. Burbridge, Chief Financial Officer. Charles A. Burbridge was appointed as the 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. Mr. Burbridge also served as the Deputy Chief Financial Officer for the Chicago Public Schools for five years. He has worked in various government positions since 1977 and devised and implemented system efficiencies as Deputy Chief Financial Officer of Cook County, Illinois.

Mr. Burbridge graduated with 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.

Richard J. Knott, Controller. Richard J. Knott is Controller of the District. He is responsible for supervising all accounting functions of the District, including business accounting, general accounting, accounts payable and payroll.

Mr. Knott became Controller in October 2003 after having retired from a 30-year career at San Diego Unified School District where his final position was Executive Director of Financial Development. He also served as Controller of San Diego Unified School District. Mr. Knott is a national authority on school district finance and revenue programs. He has testified before the U.S. Congress, House of Representatives Sub-Committee on Education as well as before the California State Assembly and Senate on various school district finance matters.

Mr. Knott earned a Bachelor's Degree in Accounting, cum laude, from the University of San Diego in 1969 and a Master's Degree in Educational Administration from San Diego State University in 1987. He has served as Lecturer for the University of San Diego, Point Loma Nazarene University and California State University, San Marcos. He has served on numerous boards and education related organizations.

James McConnell, Chief Facilities Executive. James McConnell is the Chief Facilities Executive for the District. He joined the District in April 2001 to assume responsibility for facilities operations for the District.

Experienced in construction, James McConnell was a Captain with the Civil Engineer Corps of the United States Navy. He most recently commanded at the Naval Construction Battalion Center, Port Hueneme, California. Captain McConnell retired from the Navy's Civil Engineer Corps in 2001. Prior to that, Captain McConnell was responsible for the Navy's most complex construction challenge during the period from 1995 to 1998, a $600 million recapitalization program for two U. S. naval bases in southern Italy.

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

Facilities, Staff and Enrollment

As of September 1, 2004, the District operated 419 elementary schools, 74 middle/junior high schools, 50 high schools, 8 multi-level schools, 58 options high schools, 160 magnet schools and centers, 18 special education schools, 101 early childhood education centers, 36 adult program facilities, 14 primary school centers and one newcomer school. In addition, 58 fiscally independent charter schools with approximately $120.1 million in aggregate projected Fiscal Year 2004-05 revenues operate within the District's boundaries, over which the District has certain fiscal oversight and other responsibilities.

As of September 1, 2004, the District employed 43,054 certificated (full-time equivalent) employees and 30,345 classified (full-time equivalent) employees. The District also employs part-time or temporary employees.

K-12 first-month enrollment was approximately 746,610 (including enrollment of 727,133 in regular District schools and 19,477 in charter schools) for Fiscal Year 2003-04 and was approximately 742,090 (including enrollment of 718,238 in regular District schools and 23,852 in charter schools) for Fiscal Year 2004-05. The following table provides a summary of population and school enrollment growth in the City of Los Angeles, the District and the County of Los Angeles from Fiscal Year 1994-95 through Fiscal Year 2003-04.

Los Angeles Unified School District
Population and School Enrollment Figures
Fiscal Years 1994-95 through 2003-04
(in thousands)

Fiscal Year Ended June 30	Population City of Los Angeles	Population of District(1)	Population of County of Los Angeles	School Enrollment in County of Los Angeles	School Enrollment in District	K-12 School Enrollment in District(2)
1995	3,594	4,373	9,245	1,474	808	636
1996	3,638	4,432	9,370	1,509	819	649
1997	3,682	4,488	9,488	1,550	856	668
1998	3,722	4,542	9,603	1,583	879	682
1999	3,782	4,601	9,728	1,618	913	697
2000	3,823	4,675	9,884	1,651	875(3)	711
2001	3,803	4,637	9,803	1,682	889	723
2002	3,695	4,503	9,519	1,711	907	737
2003	3,864	4,660	9,980	1,736	905	747
2004	3,912	4,718	10,103	1,743	905	747

(1) Estimate.
(2) Includes graded and ungraded enrollment.
(3) Decrease due to lower adult education enrollment.

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 1994-95 through 2003-04, and the District for the column entitled "K-12 School Enrollment in District."

Program Improvement District Designation

As a result of action by the State Board of Education on March 9, 2005, the District was informed by the State on March 21, 2005 that, effective Fiscal Year 2004-05, under the federal No Child Left Behind ("NCLB") Act of 2001, the District had been identified for federal "Program Improvement" status. This designation has been applied to 150 school districts statewide in Fiscal Year 2004-05.

Under NCLB standards, current criteria for Program Improvement districts are: (1) the local educational agency (such as the District) fails to achieve the requisite adequate yearly progress district-wide in the same content area for two consecutive years, as defined by the state standards and (2) such local educational agency fails to make the annual yearly progress in the same content area by various graduation spans for two consecutive years. The NCLB Act requires that local educational agencies identified for Program Improvement status take a variety of actions, including developing a Program Improvement Plan. Additionally, local educational agencies identified as Program Improvement districts that are also on the list of approved "Supplemental Education Services" providers (such as the District) must notify parents that the local educational agency will be removed from the list and will be allowed to continue providing supplemental education services as described in the NCLB Act only through the end of the current school semester. In the event a local educational agency continues to fail to make adequate yearly progress in accordance with the NCLB standards, the State (by federal law) must become involved in intervention activities no later than two years from the date of notification.

The District is in the process of developing its local educational agency Program Improvement Plan as required by the NCLB Act, which plan is scheduled to be considered by the District Board in late June or July 2005. The District Board is seeking additional information from State and federal sources regarding the specific requirements and possible financial implications of Program Improvement status. The District expects to take such actions as necessary to reflect any anticipated changes to revenues or expenditures as a result of its Program Improvement district status.

There have been a number of challenges and other actions taken by various entities with respect to the NCLB Act, including a lawsuit filed in the U.S. District Court in Detroit in April 2005 by the National Education Association ("NEA") and certain of its affiliates and certain school districts in Pontiac, Michigan, Laredo, Texas and south-central Vermont seeking to prevent schools from having to comply with any part of the NCLB Act using their own funds.

The District Board unanimously passed a resolution on April 26, 2005, stating that the District will (1) seek waivers and/or modifications to regulations, as appropriate, to address the necessary changes to the NCLB Act; (2) encourage the California State Legislature to join the District in calling on Congress to modify the NCLB Act; (3) join the California School Boards Association in urging Congress to review and address the necessary amendments to the NCLB Act so that schools can successfully implement the law; and (4) provide the Board of Education the opportunity to discuss the NEA lawsuit.

Governor's Initiative

A proposal has been introduced to the State Board of Education by Governor Schwarzenegger as part of an "Initiative to Turn Around Failing Schools" that would make it easier for certain schools to be converted to charter schools. Schools that fail to make gains on the State's Academic Performance Index (API) can voluntarily enter the State's Immediate Intervention/Underperforming Schools Program and receive additional State resources. A number of District schools participate in such program. Schools participating in such program that continue to fail to make progress are then subject to a stricter state-monitoring program. The Governor's proposal would allow parents at such schools to more easily convert such campuses to charter schools than current regulations would provide. The proposal is expected to be subject to consideration by the State Board of Education in July 2005. The District is unable to predict whether this proposal will be implemented.

Proposed District Divisions

In previous years, legislation has been introduced to divide the District into smaller school districts, although such legislation was not enacted and no such legislation is currently pending. From time to time, however, petitions have been filed with the Los Angeles County Office of Education to break off certain portions of the District into smaller school districts. Periodically, the County Committee on School District Organization (the "CCSDO") will be requested to approve petitions to form school districts from within the District. The evaluation of such petitions requires extensive review of ten critical factors, including equitable division of assets and liabilities and compliance with socioeconomic diversity requirements and existing legal mandates. The District is unable to predict the outcome of any future proposed division petitions. However, under State law, an equitable allocation of existing District debt obligations would be required in any such division.

Collective Bargaining

Terms of collective bargaining agreements were reached for Fiscal Year 2004-05. The District paid a 2% salary increase for teachers retroactive to the beginning of the Fiscal Year 2004-05. Negotiations with classified employees are not finalized, but the District anticipates a similar salary increase for those employees. The combined cost to the General Fund of this salary increase for both groups of employees is estimated to total approximately $80 million. The District's budget for Fiscal Year 2005-06 reflects full funding of health benefits for District employees at the Fiscal Year 2004-05 service level. Due to other budgetary pressures and State funding limitations, the District did not propose additional negotiated compensation increases for Fiscal Year 2004-05 or Fiscal Year 2005-06. See "DISTRICT FINANCIAL INFORMATION – State Funding of Education" and "DISTRICT FINANCIAL INFORMATION – State Budget" below.

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 2003-04 was approximately $241.2 million. The District's regular employer contribution to STRS for Fiscal Year 2004-05 is an estimated $200.3 million, subject to upward adjustment upon determination of the amount to be transferred for specially funded (categorical) programs. Benefit provisions are established by State legislation, in accordance with the State Teachers' Retirement Law.

The Governor's Proposed 2005-06 State Budget, released on January 10, 2005, includes a recommendation that local school districts be required to fund an additional $469 million in STRS contributions that were previously the responsibility of the State. In the event this proposal is enacted in the 2005-06 State Budget Act, the impact on local school districts would be to increase the 8.25% district contribution rate to 10.25%. The General Fund cost to the District of such an increase is estimated to be approximately $51.3 million. The District has included this increased amount in its budget for Fiscal Year 2005-06. See "DISTRICT FINANCIAL INFORMATION – State Budget – Proposed State 2005-06 Budget" below.

A five-year history of the District's regular annual contributions to STRS is set forth below, along with 2004-05 estimated and 2005-06 projected regular annual contributions.

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 1999-00 through 2004-05
and Projected 2005-06
($ in millions)

Fiscal Year	District Contributions[1]
1999-00	$174.0
2000-01	198.5
2001-02	205.9
2002-03	237.0
2003-04	241.2
2004-05[2]	205.1
2005-06[3]	262.8

(1) Reflects payments to STRS for pension costs associated with the District's specially funded programs.
(2) Estimated, based on District's Third Interim Financial Report for Fiscal Year 2004-05.
(3) Projected, based on District's 2005-06 Provisional Budget.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 for Fiscal Year 1999-00; 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 Third Interim Financial Report for Fiscal Year 2004-05; and Los Angeles Unified School District 2005-06 Provisional Budget.

Prior to July 1, 1972, the District operated its own retirement system for certificated employees. On July 1, 1972, this system was merged with STRS, and the District's Annuity Reserve Fund (the "Fund") was established with 15% of the residual assets. In November 2003, members of the Fund voted to terminate the Fund, and nearly all balances have been distributed accordingly.

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 (3) in the table below) to CalPERS for Fiscal Year 2003-04 was approximately $134.3 million. The District's regular employer contribution to CalPERS for Fiscal Year 2004-05 is budgeted at $130.5 million. The District's contribution to CalPERS is capped at 13.02% of gross salary expenditures. In years when the required actual District contribution to CalPERS is less than 13.02%, the State reduces the District's revenue limit by the difference. However, if the required contribution rate is greater than 13.02%, the State provides additional revenue limit to cover the difference.

A five-year history of the District's regular annual contributions to CalPERS is set forth below, along with 2004-05 estimated and 2005-06 projected regular annual contributions.

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 1999-00 through 2004-05
and Projected 2005-06
($ in millions)

Fiscal Year	District Contributions(1)(2)
1999-00	$68.4
2000-01	77.0
2001-02	100.9
2002-03	110.1
2003-04	134.3
2004-05(3)	102.7
2005-06(4)	110.9

(1) Reflects payments to CalPERS for pension costs associated with the District's specially funded programs.
(2) Includes "PERS Recapture." Pursuant to State law, the State is allowed to recapture the savings corresponding to a lower PERS rate by reducing a school district's revenue limit apportionment by the amount of the district's PERS savings in that year. Such recapture has occurred in each Fiscal Year since 1982-83.
(3) Estimated, based on District's Third Interim Financial Report for Fiscal Year 2004-05.
(4) Projected, based on District's 2005-06 Provisional Budget.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002 for Fiscal Year 1999-00; 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 Third Interim Financial Report for Fiscal Year 2004-05; and Los Angeles Unified School District 2005-06 Provisional Budget.

Both CalPERS and STRS are operated on a statewide basis and, based on 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. 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 excess of the actuarial value of assets over the actuarial accrued liability or unfunded actuarial accrued liability of CalPERS and STRS at June 30, 2003 was reported to be as follows:

Actuarial Value of CalPERS and STRS Retirement Systems
(As of June 30, 2003)

Name of Plan	Excess of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)[2]
Public Employee's Retirement Fund (CalPERS)[1]	$(11.935) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)	(23.110) billion

(1) Excludes the value of the local government plans of the system.
(2) CalPERS most recent actuarial valuation was as of June 30, 2003 using individual entry age normal cost method. Actuarial assumptions included an assumed 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, projected 3.00% inflation and projected 2-5% post-retirement benefit increases. STRS most recent actuarial valuation was as of June 30, 2003 using entry age normal cost method. Actuarial assumptions included an assumed 8.00% investment rate of return, projected salary increases of 4.25%, projected 3.25% inflation and projected 2.00% post-retirement benefit increases.

Source: State of California.

The funded status of STRS and CalPERS from Fiscal Years 1999-00 through 2003-04 are shown below:

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

Fiscal Year	STRS	CalPERS
1999-00	110.0%	124.2%
2000-01	98.0	116.3
2001-02	N/A[1]	97.4
2002-03	82.0	91.7
2003-04	83.0	92.7

(1) Actuarial valuations not prepared or estimated.

Historically, the State has paid the increased STRS contribution needed to pay any unfunded actuarial accrued liability, with the school district employer contribution rate staying level at 8.25%.

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, 7667 Folsom Boulevard, Sacramento, California 95826 and copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

On July 1, 1992, the District joined the Public Agency Retirement System ("PARS"), a multiple-employer retirement trust. This defined contribution plan covers the District's part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. The District's contribution to PARS for Fiscal Year 2003-04 totaled approximately $7.1 million. The District's contribution for Fiscal Year 2004-05 was budgeted at $5.0 million. A five-year history of the District's annual PARS contributions is set forth below.

Los Angeles Unified School District
Annual PARS Contributions
Fiscal Years 1999-00 through 2003-04
($ in millions)

Fiscal Year	District Contributions[1]
1999-00	$8.2
2000-01	8.2
2001-02	8.4
2002-03	7.4
2003-04	7.1

(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, 2002 for Fiscal Year 1999-00, Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003 for Fiscal Year 2000-01 and 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.

See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004 — Note J."

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. There are currently approximately 32,000 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 $172.4 million in Fiscal Year 2002-03 and was $183.0 million in Fiscal Year 2003-04. The District's General Fund budget for Fiscal Year 2004-05 includes $187.4 million for such other post-employment health care benefits and $188.3 million for Fiscal Year 2005-06 is projected in the District's 2005-06 Provisional Budget.

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The District's post-employment health benefits fall under Statement No. 45. The effective date of the Statement No. 45 reporting requirements for the District is Fiscal Year 2007-08 (the first fiscal year period beginning after December 15, 2006). The District has conducted an actuarial study to calculate the accumulated post-retirement benefit obligation with respect to post-retirement health and welfare benefits offered to its employees. Based on an actuarial study completed as of July 1, 2004, the actuarial accrued liability of the District's post-retirement health and welfare benefits program, which was unfunded, was approximately

$4.9 billion. The significant assumptions used in the computation include a 6.5% discount rate and a healthcare cost trend of 7% in 2004, declining to 6% in 2014 and remaining at that level thereafter. For additional information regarding the District post-employment benefit obligations, see "APPENDIX B – SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004 — Note J, Part 4."

In order to address its post-employment benefits obligations, the District has established a task force, consisting of District personnel from Finance, Employee Benefits, Employee Relations and senior management. In addition, the task force includes representatives from the District's audit firm, actuary firm and the Los Angeles County Office of Education. The first priority of the task force is to identify all issues and options available to the District in addressing the appropriate accounting and funding requirements of its post-employment benefit cost obligations. It is expected that once such analysis is completed, a report to the Superintendent and Board of Education with recommendations will be prepared. The timeline for completion of this task is the current Fiscal Year 2004-05.

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

Insurance

The District maintains various excess property, casualty and fidelity insurance programs, which are self-insured, with varying self-insured retentions.

The District's excess property coverages are provided currently through its membership in the Public Entity Property Insurance Program ("PEPIP"), an insurance pool comprised of certain cities, counties and school districts. 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 excess property coverage is $500,000 per occurrence and the policy limit is $750,000,000. The District maintains what it considers to be adequate reserves to cover losses within the self-insurance retention. General Fund resources are used to pay for property loss insurance and repairs for property damage. In the current Fiscal Year, one loss exceeded the District's self-insured retention in January 2005 when an unusual series of heavy rain storms caused damage to many schools.

In additon to the above excess property policies, the District purchases a separate Boiler and Machinery policy with $100,000,000 in occurrence limits and a Fidelity Crime policy with $500,000 in occurrence limits.

Excess liability insurance is maintained through a combination of excess policies totaling $45,000,000 in aggregate above a $3,000,000 self-insured retention per occurrence for Fiscal Year 2004-05. The District maintains what it considers to be adequate reserves 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 and 2003-04 totaled approximately $97.1 million, $109.7 million and $123.7 million, respectively. Such claims are projected to increase to approximately $151.0 million in Fiscal Year 2004-05. 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 $50,000,000 each incident with an aggregate of $100,000,000 (coverage period of August 11, 1999 through August 11, 2019) and a Contractor's Pollution Legal Liability insurance policy with $50,000,000 of coverage provided per covered site (and $50.0 million of coverage in aggregate losses through 2006). 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 a Builders Risk policy provided by Zurich with limits of $100,000,000.

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, 2004 — Note K."

Recent Litigation

In 2000, nearly 100 San Francisco County student plaintiffs 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 (CDE) in San Francisco County Superior Court. 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 case was settled in 2004 pursuant to a settlement agreement among the parties, resulting in the State allocating $138 million in additional funding for standards-aligned instructional materials for schools in the first and second ranks (known as deciles) determined through the 2003 Academic Performance Index (API) Base. The settlement includes another $50 million for implementation costs and other oversight-related activities for schools in deciles one through three (2003 API Base). These two amounts were included in the 2004-05 State Budget (see "DISTRICT FINANCIAL INFORMATION – State Budget – State 2004-05 Budget" herein) signed into law in July 2004 by Governor Schwarzenegger. Another $800 million will be provided for critical repair of facilities in future years for schools in deciles one through three (2003 API Base). The settlement was implemented through legislation adopted in August 2004: Senate Bill (SB) 6, SB 550, Assembly Bill (AB) 1550, AB 2727, AB 3001. Pursuant to the terms of the settlement agreement, the District is committed, in the long term and in accordance with the *Williams* legislation, to engage in changes in the academic calendar of some of its schools currently on shortened school years and to make certain changes in facilities program priorities.

DISTRICT FINANCIAL INFORMATION

State Funding of Education

General. School district revenues consist primarily of guaranteed State moneys, *ad valorem* property taxes and funds received from the State and federal government in the form of categorical aid under ongoing programs. All State aid is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the legislature to the school district.

Each school district receives a portion of the local property taxes that are collected within its district boundaries. Most local property taxes are deducted from the District revenue limit to determine the amount of State revenue limit funding as described below.

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

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

The revenue limit calculation formula was first instituted in 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 1973-74, taxpayers in school districts with low property values per pupil paid higher tax rates than taxpayers in school districts with high property values per pupil. However, despite higher tax rates, less was spent per pupil in school districts with low property values per pupil than school districts with high property values per pupil. Thus, the State revenue limit helps to alleviate the inequities between the two types of school districts.

ADA is determined by school districts three times per calendar year: in December ("First Period ADA") and April ("Second Period ADA") of each fiscal year and in July of the following fiscal year ("Annual ADA"). Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts of similar type (i.e., unified school districts, high school districts or elementary school districts) and size (e.g., large or small),

The calculation of the amount of State aid a school district is entitled to receive each year is basically a five-step process. First, the prior year district revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average revenue limit per ADA for school districts.

During this phase, a deficit factor may be applied to the base revenue limit if so provided in the State Budget Act. Third, the current year's revenue limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the revenue limit to arrive at the amount of State aid to which each school district is entitled for the current year.

Set forth below is a table of the District's revenue limit per unit of ADA for Fiscal Years 1995-96 through Fiscal Year 2004-05 and the projected revenue limit per unit of ADA for Fiscal Year 2005-06, based upon the Governor's Proposed 2005-06 State Budget.

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

Fiscal Year Ended June 30	K-12 Base Limit[1]	Adult Total Limit
1996	$3,613.58	$1,824.00
1997	3,760.73	1,887.35
1998	3,910.18	1,942.66
1999	4,282.13	1,991.48
2000	4,342.13	2,022.90
2001	4,480.13	2,101.66
2002	4,654.13	2,196.82
2003	4,747.13	2,242.12
2004	4,835.13	2,242.12
2005[2]	4,858.44	2,295.93
2006[3]	5,121.12	2,432.23

(1) The K-12 Base Limit figures represent the funded revenue limits.
(2) Per the District's Fiscal Year 2004-05 Final Budget.
(3) Based on May Revision to Governor's Proposed 2005-06 State Budget.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for Fiscal Years 1995-96 through 2003-04. Figures for Fiscal Years 2004-05 and 2005-06 are estimated, as noted.

From Fiscal Year 1993-94 through Fiscal Year 1999-00 and again in 2003-04, actual amounts received were reduced (and are expected to be reduced again in 2004-05 and 2005-06) by a deficit factor applied by the State to school districts statewide as follows:

Fiscal Year Ended June 30	Deficit Factor
1994	8.140%
1995	11.010
1996	10.120
1997	8.800
1998	8.800
1999	8.800
2000	6.996
2001	0.000
2002	0.000
2003	0.000
2004	3.002
2005	2.143
2006(1)	1.129

(1) 2005-06 Deficit Factor estimate is based on May Revision to Governor's Proposed 2005-06 State Budget.

Source: Los Angeles Unified School District.

The District's ADA record since Fiscal Year 1995-96 is set forth in the table below:

Los Angeles Unified School District
Annual Average Daily Attendance

	Average Daily Attendance(1)		
Fiscal Year Ended June 30	K-12	Charter Schools(2)	Total(3)
1996	621,311	-	695,355
1997	640,928	-	717,911
1998	654,783	-	731,206
1999	641,074	-	719,105
2000	654,664	-	732,409
2001	642,713	24,388	744,729
2002	656,306	25,635	768,313
2003	685,855	8,723	780,403
2004	675,020	18,712	778,209
2005(4)	665,873	-	-

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

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1995-96 through 2001-02. Fiscal Years 2002-03, 2003-04 and 2004-05 are from the Third Interim Financial Report for 2004-05.

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 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 1993-94 State budget adopted by the State Legislature required a similar shift of property taxes to school districts from local government entities, which shift of property taxes has since continued. The 2004-05 State Budget includes a $1.3 billion ERAF shift in local property taxes from cities, counties, special districts and redevelopment agencies to school districts. However, the 2004-05 State Budget also includes a $1.136 billion diversion of ERAF funds from school districts and community colleges to local government 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 schools 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. See "State Budget—State 2004-05 Budget" and "—Tax Shifts and Triple Flip" below. As a result of these property tax shifts, the State's share of District revenues has fluctuated and the influence of the State in the District's funding remains substantial. Regardless of the shifts in property tax revenues in recent years, and the potential decrease in such revenues, certain levels of funding are guaranteed as described below.

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

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. The 2004-05 State Budget suspended the Proposition 98 minimum guarantee for 2004-05. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the limit to K-14 schools under Article XIIIB of the State Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 98" and "—Application of 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. See also "State Budget – Proposed State 2005-06 Budget" for a discussion of certain proposed constitutional changes to the Proposition 98 funding requirements proposed by the Governor as part of the State 2005-06 Governor's Budget.

State Budget

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

The State Budget Process. The State's Fiscal Year begins on July 1 and ends on June 30. According to the State Constitution, the Governor of the State is required to propose a budget for the next Fiscal Year (the "Governor's Budget") to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a 2/3 vote of each house of the Legislature by no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor.

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

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

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

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

State 2004-05 Budget. On July 31, 2004, Governor Schwarzenegger signed into law the 2004 Budget Act (the "2004-05 State Budget"). The 2004-05 State Budget addresses an accumulated State deficit of $22.1 billion and projects a general reserve of approximately $678 million for Fiscal Year 2004-05 (of which approximately $268 million is designated for Proposition 98 funding purposes and the remaining $410 million is designated for non-Proposition 98 purposes). The 2004-05 State Budget includes numerous one-time actions, including the application of proceeds of the economic recovery bonds authorized pursuant to the California Economic Recovery Bond Act which received California voter approval at the March 2, 2004 statewide primary election, and authorized the issuance of up to $15 billion in State bonds to finance the negative General Fund reserve balance and other General Fund obligations undertaken prior to June 30, 2004. In May and June 2004, the State issued three series of economic recovery bonds, providing approximately $11.254 billion of net proceeds to the State General Fund. The State expects to issue additional economic recovery bonds prior to June 30, 2005.

The 2004-05 State Budget provides that the level of Proposition 98 appropriations be calculated at a level approximately $2.0 billion less than otherwise required for Fiscal Year 2004-05. This will create an additional $2 billion maintenance factor that is required to be restored to the Proposition 98 budget in future years as per capita General Fund revenue growth exceeds per capita personal income growth. In addition, beginning in Fiscal Year 2006-07, $150 million per year is to be provided to settle-up an estimated $1.2 billion in various prior-year Proposition 98 obligations dating back to Fiscal Year 1995-96 and including Fiscal Years 2002-03 and 2003-04.

Approximately $58.9 billion of total funding is devoted to California's 983 school districts and 58 county offices of education, resulting in estimated total per-pupil expenditures from all sources of $9,528 in Fiscal Year 2003-04 and $9,811 in Fiscal Year 2004-05. Total 2004-05 Proposition 98 support for K-12 education of $47.0 billion results in per pupil funding of $7,007, a slight decrease from the $7,009 per pupil funding in Fiscal Year 2003-04 based on the Fiscal Year 2003-04 revised estimate (which includes the effects of $259 million in one-expenditures that were not part of the 2003-04 State Budget Act; per pupil Proposition 98 funding was $6,887 under the 2003-04 State Budget Act).

Major provisions of the 2004-05 State Budget relating to K-12 education funding include the following:

- **Proposition 98 Guarantee** – Total 2003-04 Proposition 98 funding was $46.2 billion, of which the General Fund share is $30.4 billion. This funding level is currently estimated to be $481.1 million below the updated constitutional minimum guarantee, because of increased revenue estimates. Total 2004-05 Proposition 98 funding is $47.0 billion, an increase of $788 million over the revised 2003-04 guarantee, of which the General Fund share is $34.0 billion. This level is $2 billion less than the Proposition 98 base guarantee for Fiscal Year 2004-05. The 2004-05 Budget reflects a proposal to set this lower level of funding pursuant to legislation that would add this amount to the maintenance factor that is owed to schools in future years. Property taxes are reduced $1.136 billion to reflect the transfer of property taxes to local governments to offset sales taxes redirected to pay the debt service on the State's economic recovery bonds. Property taxes would be increased by $1.3 billion by increasing city and county contributions to the Education Revenue Augmentation Fund ("ERAF") as a substitute mechanism to sustain the level of Vehicle License Fee offset in Fiscal Year 2003-04.

- **Revenue Limits** – The 2004-05 State Budget provides a net increase of $1.2 billion to district and county office of education revenue limits. This includes funding for enrollment growth, a cost of living adjustment, equalization, increases in the cost of Unemployment Insurance reimbursements, and $270 million to reduce the deficit factor. Total spending on revenue limits is approximately $30.3 billion.

- **Enrollment Growth** – The 2004-05 State Budget includes $508.5 million to provide enrollment growth increase for apportionments ($412.3 million), special education ($35.6 million), and other categorical programs ($60.6 million). This includes $10.3 million deferred to 2005-06.

- **Cost of Living Adjustment –** The 2004-05 State Budget includes $1.0 billion to provide a 2.41% cost of living adjustment increase to K-12 programs. Included in this amount is funding for apportionments ($740.5 million), special education ($91 million), and other categorical programs ($173.7 million). This includes $25.3 million deferred to 2005-06.

- **Equalization** – The 2004-05 State Budget provides $109.9 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels. This closes 26% of the remaining gap of the targeted 90th percentile of the distribution of revenue limits. See "DISTRICT FINANCIAL INFORMATION – State Funding of Education – General" above.

- **Unemployment Insurance** – The 2004-05 State Budget fully funds an estimated $120.1 million increase in local education agency Unemployment Insurance reimbursements. This increase is attributable to an increase in the Unemployment Insurance rate from 0.30% of projected salaries to 0.65%.

- **Public Employees' Retirement System (CalPERS) Offset –** The 2004-05 State Budget reflects net reductions of the CalPERS offset to district and county office of education revenue limits of $155.9 million to reflect savings provided by current CalPERS contribution rates. Included in this amount is over $36 million to local education agencies to mitigate the CalPERS offset to revenue limits, which provides additional general purpose revenues.

- **Special Education** – In addition to the $35.6 million for enrollment growth and $91 million to fund the 2.41% cost of living adjustment increase, the 2004-05 State Budget includes an additional $38.4 million to partially fund a revised formula for allocating funds to pupils with exceptional needs who reside in licensed children's institutions. The 2004-05 State Budget includes $100 million for the provision of mental health services for children with exceptional needs, subject to legislation to clarify responsibilities for service delivery. In total, the 2004-05 State Budget provides over $2.7 billion in General Fund and nearly $1.1 billion in federal funds for Special Education

- **Instructional Materials** – The 2004-05 State Budget includes $363 million in ongoing funding for instructional materials, an increase of $188 million over the previous fiscal year. Of that amount, $30 million is allocated on a one-time basis for the purchase of supplemental materials to help students with a primary language other than English. Additionally, $138 million is appropriated for the purchase of State standards-aligned materials for schools ranked in deciles 1 and 2 of the Academic Performance Index. This appropriation is intended to address issues raised in the *Williams v. State of California* litigation (See "DISTRICT GENERAL INFORMATION—Recent Litigation" above) and aid in reaching a settlement agreement.

- **Deferred Maintenance** – The 2004-05 State Budget fully funds the State Deferred Maintenance Program at $250.3 million, an increase of $173.3 million to the funding level provided in the 2003-04 State Budget Act.

- **Pupil Testing** – The 2004-05 State Budget provides $112.6 million ($77 million Proposition 98 General Fund) for various statewide assessment exams.

- ***Williams* Litigation** – The 2004-05 State Budget includes $50 million in 2003-04 Proposition 98 funding available for funding one-time assistance to students and schools as part of the settlement of this litigation that has raised issues about disparate availability of qualified teachers, well-maintained facilities and up-to-date instructional materials in schools serving predominantly low-income, minority and English-learning students.

- **Reading First** – The 2004-05 State Budget includes $174.2 million of federal funds for the Reading First Program, including $29.6 million from prior years. This program is designed to reduce the number of unnecessary special education referrals.

- **Accountability** – The 2004-05 State Budget provides $423.2 million ($249.2 million Proposition 98 General Fund) for programs to assist and promote academic performance.

- **Child Care and After-School Programs** – The 2004-05 State Budget includes approximately $2.7 billion for subsidized child care, including $2.2 billion for programs in the Department of Education.

- **Before- and After-School Programs** – The 2004-05 State Budget includes over $284 million in State and federal funds to provide before and after school enrichment programs.

Tax Shifts and Triple Flip. As described above, since the early 1990's, the State has required counties, cities and special districts to shift property tax revenues to school districts by contributing to the ERAF in lieu of direct payments to school districts from the State General Fund.

As part of the State's economic recovery plan, a bond initiative formally known as the "California Economic Recovery Act" was approved by the voters on March 2, 2004. This act authorized the issuance of $15 billion in bonds to finance the Fiscal Year 2002-03 and Fiscal Year 2003-04 State budget deficits (as described above), which are payable from a fund to be established by the redirection of tax revenues through a mechanism commonly referred to as the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction will be redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local governments, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State General Fund revenues.

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

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Analysis of the budget may be found at the website of the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov.

Proposed State 2005-06 Budget. On January 10, 2005, Governor Schwarzenegger released the Fiscal Year 2005-06 Governor's Budget (the "2005-06 Governor's Budget"). The 2005-06 Governor's Budget reported that, in the absence of corrective actions to change existing policies, operating deficits, estimated at $9.1 billion in Fiscal Year 2005-06, would continue to be incurred. The 2005-06 Governor's Budget proposes various corrective actions that result in a balanced budget. The 2005-06 Governor's Budget also revises various revenue and expenditure estimates for Fiscal Year 2004-05.

The 2005-06 Governor's Budget projects that the State will end Fiscal Year 2004-05 with a reserve of $784 million, up approximately $16 million from estimates made at the time of the 2004-05 State Budget. Under the 2005-06 Governor's Budget, General Fund revenues and transfers for Fiscal Year 2004-05 are projected at $78.2 billion, an increase of $968 million compared with 2004-05 State Budget estimates.

Under the 2005-06 Governor's Budget, State General Fund expenditures for Fiscal Year 2004-05 are projected at $82.3 billion, an increase of $1.6 billion compared with 2004 Budget Act estimates. This includes an additional $121 million in Proposition 98 expenditures.

The 2005-06 Governor's Budget projects to end Fiscal Year 2005-06 with a $500 million reserve. General Fund revenues, transfers and new economic recovery bonds for Fiscal Year 2005-06 are projected at $85.5 billion, an increase of $5.2 billion compared with revised estimates for Fiscal Year 2004-05. The 2005-06 Governor's Budget, among other assumptions, reflects an increase in major revenues of $5.345 billion, or 7.0%, due to improved economic forecast. State General Fund expenditures for Fiscal Year 2005-06 are projected at $85.7 billion, an increase of $3.4 billion, or 4.2%, compared with revised estimates for Fiscal Year 2004-05. This reflects a total of $7.0 billion of General Fund expenditure solutions, spending reductions from the level of expenditures that would have been required to comply with the Constitution and State law, federal government mandates, and court order, and to provide for cost of living adjustments and growth in enrollment, caseload, and population.

The 2005–06 Governor's Budget contains the following major components relating to K-12 education funding:

- ***Proposition 98.*** State General Fund Proposition 98 expenditures are proposed to increase by $2.409 billion, or 7.1%. This reflects increases in the Proposition 98 guaranteed funding level resulting from increases in State General Fund revenues in Fiscal Year 2005–06, adjusted for changes in local revenues. This also reflects a decision not to appropriate the $1.1 billion in 2004–05 and $1.17 billion in 2005–06 that would otherwise have been required under the Proposition 98 guarantee if the Fiscal Year 2004–05 suspension had not occurred.

- ***Cost of Living Adjustments and Growth.*** The 2005-06 Governor's Budget fully funds both statutory and discretionary growth and cost of living adjustments. Specifically, the 2005-06 Governor's Budget proposes $1,650 million for 3.93% cost of living adjustment ($1,222 million for revenue limits and $428 million for categorical programs), and $395 million for 0.79% growth in student attendance ($246 million for revenue limits and $149 million for categorical programs).

- ***Deficit Factor Reduction.*** To balance the 2003-04 Budget Act, the State "deficited" or reduced revenue limits by $894 million by not providing a cost of living adjustment (1.8%) and reducing revenue limits by 1.2% from the 2002-03 level. The 2004-05 Budget Act provided $270 million to restore part of these reductions. The 2005-06 Governor's Budget proposal would provide an additional $328 million for this purpose.

- ***Williams Settlement Facility Funding.*** Consistent with the *Williams* lawsuit settlement (see "DISTRICT GENERAL INFORMATION – Recent Litigation" above), the 2005-06 Governor's Budget proposes that $100 million in one-time funds be earmarked for emergency facility repairs.

The 2005-06 Governor's Budget for K-14 education also includes several major policy issues that affect schools and community colleges. The budget, however, does not reflect the financial impact of these policy initiatives. As described above, the 2005-06 Governor's Budget proposes to shift from the State to school districts and community colleges $469 million in annual STRS costs. The State has contributed this amount of non-Proposition 98 funds each year to pay for a portion of the system's costs. Beginning in Fiscal Year 2005-06, the 2005-06 Governor's Budget proposes that school and community college districts assume responsibility for these costs. No additional funds are proposed in the budget to help school districts pay for these new retirement costs.

The 2005-06 Governor's Budget also proposes to shift to school districts fiscal responsibility for mental health services needed by special education students. Under current law, these services are provided by county mental health agencies under a reimbursable state-mandated local program. Based on the most recent county claims, costs of this program totaled $143 million (non-Proposition 98 funds). By shifting responsibility for these services to school districts, the budget would also shift the costs of these mental health services to local education agencies. The special education budget includes $100 million that could be used to pay for these costs. No additional funds are proposed to cover the remaining $43 million of services.

The 2005-06 Governor's Budget also proposes a series of constitutional changes. The proposed constitutional amendments have been submitted to the Legislature in a special session called by the Governor, and must be approved by a majority of the voters. The Governor has indicated that he will present the proposed constitutional amendments directly to the electorate through the initiative process if the Legislature fails to approve the proposed reforms in time for a special election. The Governor's proposed reforms that would affect school districts are described below:

- ***Proposition 98.*** Currently, the Legislature can suspend the Proposition 98 guarantee only with a bill approved by two-thirds of each house. Suspension of the Proposition 98 guarantee creates a maintenance factor of the same amount. The Governor's Proposition 98 reform proposal eliminates the Legislature's ability to suspend Proposition 98 and the Test 3 calculation that allows the State to reduce Proposition 98 payments when the sum of percentage growth in per capita General Fund revenues plus 0.5% is lower than percentage growth in per capita personal income, and also creates a maintenance factor. By eliminating suspension of Proposition 98 and the Test 3 calculation, no new maintenance factor will be created in future years. The 2005-06 Governor's Budget proposes that all sums owed for the maintenance factor existing as of June 30, 2006 would be repaid on a one-time basis within 15 years.

  Under this reform proposal, the State will annually pay its Proposition 98 obligation to K-14 education as specified by the original two tests, whichever is applicable, unless General Fund appropriations are reduced pursuant to the across-the-board reduction. The State will not postpone Proposition 98 obligations to future years and settle-up obligations, which are one-time in nature, owed for prior fiscal years through and including the Fiscal Year 2003–04 will be repaid within 15 years of the effective date that the measure is approved by the voters implementing this proposal. The Proposition 98 reform proposal also requires certification of the Proposition 98 guarantee by the Department of Finance and the Superintendent of Public Instruction within 24 months following the end of each fiscal year beginning with the Fiscal Year 2004–05, and will continuously appropriate any settle-up funds owed for each of those years as soon as each fiscal year's obligation is certified.

- ***Pension Reform.*** The Pension Reform proposal will amend the Constitution to prohibit the State or any of its political subdivision, including K-12 school districts, from offering defined benefit plans to new employees.

- ***Merit Pay and Tenure.*** The Governor proposed a constitutional measure that would alter existing regulation of local school district employee practices. The proposal would require districts to base employment decisions only on employee performance and the needs of the district and its students. The proposal also would extend from two complete consecutive school years to five complete consecutive school years the amount of time teachers must perform satisfactorily before receiving employment protection known as "tenure."

- ***School District Reports.*** The Governor's proposal would require school districts to annually report to the public each school's revenues and expenditures. Legislation

(ACA 2) has been introduced which specifies the types of information to be reported under this proposal.

LAO Reports

On January 12, 2005, the LAO released its report entitled "2005–06: Overview of the Governor's Budget" (the "January Report"), which contained the LAO's initial analysis of the 2005-06 Governor's Budget. In the January Report, the LAO stated that the 2005-06 Governor's Budget has several "positive attributes" and "realistically portrays the size of the [budget] problem facing the State and contains reasonable estimates for its solution." Among the "positive attributes" cited by the LAO included the use of only a portion of the remaining authorized economic recovery bonds (leaving $2 billion of authorization to future years), not increasing current year Proposition 98 funding, and relying on "reasonable estimates of caseloads, costs and revenues." The LAO stated that the 2005-06 Governor's Budget, assuming all budget saving proposals are adopted and fully achieved, would reduce the State's structural shortfall by about one-half (or $4.5 to $5 billion annually), but that the State will "continue to face major budget imbalances in Fiscal Year 2006–07 and beyond, absent additional corrective measures."

On February 22, 2005, the LAO released its report entitled "The 2005-06 Budget: Perspectives and Issues" (the "February Report"), which contained a more expansive analysis of the 2005-06 Governor's Budget, as well as an analysis of related major policy issues facing the Legislature. In the February Report, the LAO, taking into account the 2004 year-end corporate and personal income tax payments, which exceeded the 2005-06 Governor's Budget forecasts by $800 million, significantly increased its projection of the State's revenues. The LAO projected that revenues would exceed the 2005-06 Governor's Budget forecast by $1.4 billion in the current fiscal year, and by $800 million in Fiscal Year 2005-06. Based upon these increased revenue projections, and assuming all of the budget proposals from the 2005-06 Governor's Budget are adopted and nearly all of its savings realized, the LAO projects that the State will end Fiscal Year 2005-06 with a general reserve of $2.9 billion, or $2.4 billion more than that assumed in the 2005-06 Governor's Budget estimate of $500 million.

In its reports, the LAO warned that some of the savings in the 2005–06 Governor's Budget are subject to considerable risk, particularly the assumed sale of $765 million of pension obligation bonds, which is subject to court challenge, $408 million of public employee compensation savings which are dependent on collective bargaining negotiations, and savings from unallocated reductions in State operations in most program areas and procurement reforms, which have often fallen short of expected levels of savings in prior years. The LAO also highlights other factors that would perpetuate the State's structural deficit, such as the use of $1.7 billion of economic recovery bond proceeds and $765 million of pension bond proceeds in the 2005-06 budget, and the end, in Fiscal Year 2006-07, of the two year diversion of local property taxes under Proposition 1A. In the February Report, the LAO continues to warn of State budget shortfalls in the range of $4 to 4.5 billion, assuming that all of the budget proposals from the 2005-06 Governor's Budget (or alternative proposals of equal magnitude) are adopted, or of budget deficits in the range of twice that magnitude if such budget proposals (or alternative proposals of equal magnitude) are not adopted.

The LAO reports also raise concerns relating to the Governor's structural reform proposals. The LAO warns that the Proposition 98 and across-the-board reduction provisions "would dramatically reduce the ability of future policy makers to establish budget priorities." In particular, the LAO cautions that the elimination of the Proposition 98 suspension provisions and Test 3 calculation (which allows for the reduction of the growth rate of Proposition 98 funding during low revenue years) would leave policy makers with limited discretion over the allocation of budget resources between education and other State programs, and potentially shift all of the burden of balancing the budget on spending reductions in non-

Proposition 98 programs (such as higher education, health, social services and criminal justice), or on taxpayers in the form of higher fees and taxes. In the LAO's view, the elimination of the ability to suspend Proposition 42 transfers for transportation or to borrow from special funds would also limit the State's ability to deal with budget shortfalls.

See "May Revision" below for a description of the LAO's analysis of the May Revision to the 2005-2006 Governor's Budget.

Publications from the LAO can be read in full by accessing the LAO's website (www.lao.ca.gov) or by contacting the LAO at (916) 445-4656.

May Revision

The May Revision to the 2005-06 Governor's Budget (the "May Revision") was released on May 13, 2005. The May Revision projects approximately $3.9 billion more in State General Fund revenues over the 2004-05 and 2005-06 time periods than was estimated in the 2005-06 Governor's budget, largely due to the effects of economic growth on personal income tax, corporation tax, sales tax and other tax revenues. As a result, State funding of education from all sources is expected to be increased from the levels estimated in the 2005-06 Governor's Budget. For 2004-05, the May Revision reflects an increase of $207 million in such funding for K-12 education from the 2005-06 Governor's Budget level of $59.3 billion. For 2005-06, an increase of $385.4 million results in total estimated funding of K-12 education of $61.5 billion. Funding per pupil from all sources for Fiscal Year 2005-06 relative to the 2005-06 Governor's Budget increases $117, from $10,084 to $10,201 in the May Revision. Revised per pupil funding of $9,940 in 2004-05 represents an increase of $76 per pupil from the 2005-06 Governor's Budget level of $9,864.

The May Revision maintains the Proposition 98 appropriations for K-12 education at the level proposed in the 2005-06 Governor's Budget (notwithstanding a decrease in the projected Proposition 98 minimum guarantee as calculated in the May Revision). The May Revision provides $251.8 million towards prior year Proposition 98 settle-up obligations owed for the 1995-96 and 1996-97 fiscal years. Under the May Revision, these funds are proposed for one-time activities associated with various initiatives proposed by the Governor, including teacher recruitment, retention and recognition, expanding beginning teacher support, class size reduction, career technical education, smaller learning environments, supplemental instruction for the high school exit exam, school nutrition and physical education.

The May Revision includes an estimated 2004-05 K-12 ADA growth of 0.52 percent, down from the 0.97 percent in the 2005-06 Governor's Budget. The May Revision includes an additional $113.1 million to fund an increase in the estimated cost of living adjustment factor from 3.93 percent to 4.23 percent. The May Revision provides a net decrease compared to the 2005-06 Governor's Budget of $2.4 million to revenue limits, which includes a decrease of $307.2 million in anticipated ADA growth, an increase of $79.8 million due to the change in the cost of living adjustment factor and an increase of $225 million to account for revised local revenues.

Certain other adjustments in the May Revision include an additional $90 million in funding for mental health services over the 2005-06 Governor's Budget and $154.5 million in federal NCLB Act grant carryover funding to assist schools and districts identified as "Program Improvement" status (see "Program Improvement District Designation" above).

In its "Overview of the 2005–06 May Revision," released on May 13, 2005, the LAO found "sensible" the Governor's use of the estimated $4 billion of new funds generated by an improved economic outlook to reducing debt and restoring Proposition 42 transportation funding. However, the

LAO stated that the basic fiscal picture for the State had not changed dramatically from its earlier assessment; the LAO reiterated its forecasts of budget shortfalls of about $4.1 billion in Fiscal Year 2006-07 (net of amnesty related tax refunds and adjustments), $4 billion in Fiscal Year 2007-08 and then $3 billion for Fiscal Year 2008-09.

Moreover, the LAO continued to express caution about the reliability of certain revenue and savings proposals incorporated into the 2005-06 Governor's Budget, including (i) approximately $408 million of employee benefit compensation savings (which are dependent upon successful collective bargaining), (ii) approximately $469 million related to the shift in CalSTRS's retirement costs from the State to school districts (which could require the rebenching of the Proposition 98 funding guarantee); (iii) the impact of the a recent state Superior Court decision that found that last year's suspension of a $500 million payment to CalSTRS by the State to be illegal, and (iv) approximately $525 million of additional revenue from the issuance of pension bonds (which are being challenged in court). The LAO also projected that revenues during the second half of the current fiscal year (2004-05) would be $600 million less than as projected in the 2005-06 May Revision, although the LAO stated their forecast of revenues for the 2005-06 budget year is similar to the Governor's revised estimate.

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 is routinely breached. Delays in the adoption of a final State budget in any fiscal year could impact the receipt of State funding by the District as described below.

Jarvis v. Connell. 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*) (referred to herein as *"Connell"*). The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of State funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. Nevertheless, the State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, has indicated that State payments of such amounts would continue during a budget impasse. The State Controller, however, has concluded that K-12 categorical programs are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's petition for review of the *Connell* case on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court. On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. To the extent the *Connell* decision applies to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of some payments to the District while such required legislative action is delayed, unless the payments are self-executing authorizations, continuing appropriations or are subject to a federal mandate. State aid for many categorical programs are paid on a 10-month basis, from September to June, and, therefore, would be of no impact until September. News releases and other guidance as to what can and cannot be paid during a budget impasse have been posted at the website of the State Controller, *www.sco.ca.gov.*

Ad Valorem Property Taxation, Assessed Valuations, Tax Levies, Collections and Delinquencies

For information regarding the District's tax base, tax rates, history of tax collections and other matters concerning *ad valorem* property taxation within the District, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Assessed Valuation of Property Within the District," "—Tax Rates, Levies, Collections and Delinquencies," and "—Largest Taxpayers in the District" in the forepart of this Official Statement.

Significant Accounting Policies, System of Accounts and Audited Financial Statements

The California State Department of Education 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, and Simpson & Simpson, Los Angeles, California, serve as independent auditors to the District and excerpts of their report for Fiscal Year ended June 30, 2004 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 California Department of Education and the County Superintendent of Schools by December 15.

State Financial Accountability and Oversight Provisions. California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. California Assembly Bill 2756 ("A.B. 2756"), effective June 21, 2004, revised the existing provisions of A.B. 1200 and imposed additional financial accountability and oversight requirements on school districts. Many provisions affect District operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. 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. The county office of education reviews the certification and issues either a positive, negative or qualified certification. 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. Each certification is based on then-current projections. Prior to March 2005, the District held a positive certification from the Los Angeles County Office of Education ("LACOE") for its budget submissions.

In a letter dated October 8, 2004, LACOE directed the District to provide and adopt a fiscal stabilization and budget reduction plan along with its First Interim that identified approximately $110 million of proposed budget solutions for Fiscal Years 2005-2006 and 2006-07 in order for LACOE to support a positive certification for the District's First Interim. The amount of the proposed budget solutions to be addressed in the District's fiscal stabilization and budget reduction plan was subsequently increased to $137.3 million in Fiscal Year 2005-06, and to $164.9 million for Fiscal Year 2006-07. The District submitted its First Interim Financial Report ("First Interim") for Fiscal Year 2004-05 and projections for Fiscal Year 2005-06 and 2006-07 to LACOE with a positive certification on December 15, 2004. In response to the October 8, 2004 letter from LACOE, on January 18, 2005, the Board of Education adopted a fiscal stabilization and budget reduction plan which included reductions totaling $167.6 million, sufficient to cover the projected deficits for both the Fiscal Years 2005-06 and 2006-07. The fiscal stabilization and budget reduction plan was submitted to LACOE on January 18, 2005, and on January 21, 2005, the District received a response from LACOE which concurred with the District's positive certification.

On March 15, 2005, the District Board of Education received and adopted the Second Interim Report for the Fiscal Year 2004-05. The Second Interim Report was adopted with a qualified certification, as a result of the District reflecting in its financial information the cost to the General Fund of a 2% salary increase offered to employee groups retroactive to July 1, 2004 (see "DISTRICT GENERAL INFORMATION – Collective Bargaining" above), which resulted in a projected General Fund deficit of $72.3 million in Fiscal Year 2005-06 and an increase to $158.8 million in Fiscal Year 2006-07.

The qualified certification resulted in increased oversight of the District by LACOE, including the requirement that the District submit on June 1, 2005 a Third Interim Financial Report for the Fiscal Year 2004-05 (the "Third Interim"), reflecting data as of April 30, 2005. The Third Interim had to include a Board-adopted fiscal recovery plan detailing the District's efforts to eliminate the projected Fiscal Year 2005-06 and 2006-07 General Fund deficits. The Third Interim was prepared and submitted as required. See "District Budget − Fiscal Year 2004-05 Budget" for a summary of the originally budgeted revenues and expenditures, the modified budget figures, and the projected year-end figures including the projected year-end General Fund Balance as reported in the Third Interim Financial Report for the Fiscal Year 2004-05. The qualified certification also resulted in increased LACOE review of District transactions, including a requirement of LACOE approval and oversight of the District's note and certificate of participation issuances. The District has kept LACOE informed about all such transactions and has received the requisite approvals.

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.

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, 2004" for the District's Management's Discussion and Analysis for Fiscal Year 2003-04. See also "DISTRICT GENERAL 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, 2004—Note A, Part 5."

The following table sets forth the District's General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2000 through June 30, 2004.

Los Angeles Unified School District
Statement of Revenues, Expenditures and General Fund Balances[1]
Fiscal Years Ending June 30, 2000 through June 30, 2004
($ in millions)

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

(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.

District Budget

General. State law requires school districts to maintain a balanced budget in each Fiscal Year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must file with the county superintendent of schools a tentative budget by June 30 in each Fiscal Year and an adopted budget by September 8 of each Fiscal Year. After approval of the adopted budget, the school district's administration may submit budget revisions for governing board approval.

School districts in California must also conduct a review of their budgets according to certain standards and criteria established by the State Department of Education. A written explanation must be provided for any element in the budget that does not meet the established standards and criteria. The district superintendent or designee must certify that such a review has been conducted and the certification, together with the budget review checklist and a written narrative, must accompany the budget when it is submitted to the County Office of Education. The balanced budget requirement makes appropriations reductions necessary to offset any revenue shortfalls.

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

Two areas of expenditure that have risen significantly in recent years are workers' compensation claims and employee and retiree health benefits. Total workers' compensation expenditures were $94.1 million in Fiscal Year 1999-00 and are expected to increase to $151.0 million in Fiscal Year 2004-05. The District is currently examining methods to contain the growth in workers' compensation claims.

Employee health care costs have also been increasing sharply, with a projected increase of $80.7 million in Fiscal Year 2005-06, based on total expenditures in the Health and Welfare Benefits fund projected to be $777.6 million in Fiscal Year 2005-06 and estimated at $696.9 million for Fiscal Year 2004-05. In comparison, these amounts were $644.7 million in Fiscal Year 2003-04 and $574.1 million in Fiscal Year 2002-03. The premiums for health care have been paid by the District in the past, but given the rapid increase in costs and the District's relatively stable revenue base, the District may not be able to continue to subsidize these costs for employees.

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

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

Following lengthy discussion over a period of several months, the Board on June 22, 2004 adopted a Budget and Finance Policy intended to assist the Board in making sound decisions, guide the development of the District's budget, enhance the management of the District's finances, minimize the risk of budget shortfalls that could trigger LACOE intervention, and reduce potential audit concerns. The adopted Budget and Finance Policy creates enhanced standards for budget preparation and administration, including a requirement that reserves be established covering such elements as anticipated balances, emergency needs, and long-term liabilities in the areas of workers' compensation and health and medical benefits. The Budget and Finance Policy will become effective in July 2005 and will provide a consistent framework for developing the District's Fiscal Year 2005-06 budget. See "District Fiscal Policies—Budget and Finance Policy" below.

One aspect of the Budget and Finance Policy, which will become effective as a whole with the Fiscal Year 2005-06, is being implemented in the Fiscal Year 2004-05 budget. The Reserve for Anticipated Ending Balance, reflecting the District's best estimate of the year-end General Fund balance, 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. See "Significant Accounting Policies, System of Accounts and Audited Financial Statements – *State Financial Accountability and Oversight Provisions*" herein.

The following table summarizes the originally budgeted revenues and expenditures, the modified budget figures, and the projected year-end figures including the projected year-end General Fund Balance as reported in the Third Interim Financial Report for the Fiscal Year 2004-05:

Los Angeles Unified School District
Fiscal Year 2004-05
General Fund
Summary of Balances, Revenues and Expenditures
($ in millions)

	Original Budget	Modified Budget (as of 1/31/05)	Projected Actuals (as of 4/30/05)
Beginning Balance	$ 320.0	$ 324.0[1]	$ 324.0
Revenues/Other Sources	6,651.0	6,616.3	6,385.6
Expenditures/Other Uses	6,648.9	6,616.2	6,373.6
Surplus (Deficit)	2.1	0.1	12.0
Ending Balance	$ 322.1	$ 324.1	$ 336.0

(1) Reflects an audit adjustment of $4 million to beginning balance as a result of transferring eligible expenditures from regular programs to a grant program.

Source: Controller, Los Angeles Unified School District.

Presented below are the District's Adopted Budgets for the General Fund for Fiscal Years 2002-03 through Fiscal Year 2004-05 and the District's 2005-06 Provisional Budget.

Los Angeles Unified School District
Adopted General Fund Budgets for Fiscal Years 2002-03, 2003-04, and 2004-05
and Provisional Budget for 2005-06
($ in millions)

	Adopted Budget 2002-03	Adopted Budget 2003-04	Adopted Budget 2004-05	Provisional 2005-06 Budget
Beginning Balance[1]	**$ 584.1**	**$ 579.0**	**$ 320.0**	**$ 340.0**
Revenue:				
State Apportionment	$2,333.7	$2,239.3	$2,243.5	$ 2,811.9
Property Taxes	985.8	1,057.7	1,195.9	717.5
Total Revenue Limit Revenues	$3,319.5	$3,297.0	$3,439.5	$ 3,529.4
Federal	$ 836.6	$ 980.8	$1,054.6	1,018.6
Other State	1,988.4	1,893.9	1,968.5	2,017.1
Other Local	108.1	81.4	91.3	108.8
Other Sources	234.4	25.3	97.1	55.3
Total Revenue	**$6,487.0**	**$6,278.4**	**$6,651.0**	**6,729.2**
Total Beginning Balance and Revenue	**$7,071.2**	**$6,857.5**	**$6,971.0**	**7,069.2**
Expenditures:				
Certificated Salaries	$ 2,908.0	$ 2,861.7	$ 2,867.9	2,987.0
Classified Salaries	915.8	936.5	917.2	894.5
Employee Benefits	1,061.0	1,181.5	1,296.8	1,407.4
Books and Supplies	830.2	517.1	400.2	448.3
Other Operating Expenses	723.3	703.0	641.7	540.0
Capital Outlay	127.2	151.5	60.7	67.5
Other Outgo/Other Uses	492.8	491.3	468.4	123.6
Total Expenditures	**$7,058.4**	**$6,842.6**	**$6,652.9**	**$6,468.3**
Ending Balance	**$12.8**	**$14.9**	**$318.1**	**$301.2**

(1) Actual beginning balance for Fiscal Years 2002-03 and 2003-04.

Source: District Adopted Budgets.

***Fiscal Year 2005-06 Budget**.*

The District's 2005-06 Provisional Budget, which was formally presented to the Board on June 21, 2005 for adoption on June 28, totals $11.9 billion. Of this amount, the General Fund, Regular Program, which reflects funding for the District's basic instructional programs, totals $5.67 billion. It is anticipated that $5.4 billion of this amount will be expended in Fiscal Year 2005-06, with $260.4 million projected to carry forward into Fiscal Year 2006-07. General Fund categorical programs add another $1.062 billion in projected Fiscal Year 2005-06 revenues and expenditures.

Based upon the projections in the District's Third Interim Financial Report, which projects Fiscal Year 2004-05 revenue and expenditure levels based on information as of April 30, 2005, the District expects to begin Fiscal Year 2005-06 with a General Fund beginning balance equivalent to approximately 5% of anticipated expenditures.

The Fiscal Year 2005-06 Provisional Budget's income estimates are based upon the Governor's May Revision ("May Revise") to his Proposed 2005-06 State Budget, and on the best available information regarding federal revenues, interest rates, and other factors influencing the level of available revenues. The District has learned that the State Legislature's Budget Conference Committee has made a variety of recommendations regarding the Governor's K-12 education proposals, but these recommendations are not reflected in the District's 2005-06 Provisional Budget.

While the District hopes for an improved public education funding package in the State Budget Act, it has utilized the May Revise to guide the Provisional Budget's State funding assumptions. The May Revise provides for a 4.23% cost of living adjustment (COLA), which results in an increase in District revenue limit income of approximately $10 million. It also decreases the base revenue limit deficit factor from 2.143% in Fiscal Year 2004-05 to 1.129% in Fiscal Year 2005-06, generating an additional $36 million of General Fund income. A return to full, undeficited funding of the revenue limit would increase District unrestricted revenues by approximately $40 million. The May Revise includes no revenue limit equalization funding.

Much of the new K-12 education funding in the May Revise is provided in the form of categorical funding for such diverse purposes as expansion of the class-size reduction effort, supplemental instruction for students at risk of failing the high school exit exam, career technical education for grades 7-8, expanding support for beginning teachers, and healthier school breakfasts. The District's Provisional Budget reflects the assumption that these programs will be incorporated in the State budget act, and includes both revenue and expenditure projections for these programs.

The May Revise continues in place the Governor's proposal, initially introduced in his January budget, that responsibility for $469 million in mandated State payments to the State Teachers Retirement System (STRS) be transferred to local school districts. This has the effect of increasing the District's STRS percentage from 8.25% to 10.25%, at a cost of $51 million.

The District's total enrollment is expected to decrease by 4,935 from the Fiscal Year 2004-05 school year, reflecting an anticipated reduction of 8,913 in K-12 regular schools, partially offset by an increase of 3,978 in charter school enrollment. The State Education Code's declining enrollment statutes enable the District to claim Fiscal Year 2005-06 revenue limit funding on the basis of Fiscal Year 2004-05 average daily attendance (A.D.A.).

The General Fund budget includes approximately $80 million in expenditures to cover the cost of a 2% salary increase for nearly all employees, reflecting the agreement between the District and United Teachers – Los Angeles (UTLA). Employee health and medical benefits remain in place at the Fiscal Year 2004-05 coverage level. See "DISTRICT GENERAL INFORMATION—Collective Bargaining."

For Fiscal Year 2005-06, the State has mandated that districts budget the reserve for economic uncertainties at the full statutory level, which for the District equals 1% of total General Fund budgeted expenditures. The Provisional Budget includes $67.5 million for this purpose. The Provisional Budget also reflects a return to the full 3% funding level for routine building repair and maintenance, increased from the 2% level authorized for Fiscal Year 2003-04 and Fiscal Year 2004-05.

The District has adopted a Budget and Finance Policy that calls for the District to fund reserves for various purposes: general financial flexibility compliance with the GASB requirement that projected costs of health care coverage for current employees and retirees be formally reported; accumulation of funding for replacement of depreciated capital items; and others. In view of the State's revenue insufficiency, the District's Chief Financial Officer is recommending that with the exception of the mandated full funding of the reserve for economic uncertainties, the District postpone contribution to these reserves until they can be funded without significant impact on the instructional program and other essential District activities.

The Provisional Budget assumes the Board will approve $230.9 million in expenditure budget reductions and redirections prior to adoption of the final budget. Proposed reduction packages including many of the recommended reductions/redirections had been presented to the Board in public sessions prior to the June 21 Provisional Budget presentation; additional recommendations were presented on June 21. It is expected that the Board will fully consider the reduction package prior to adopting the Provisional Budget on June 28.

District Fiscal Policies

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

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

Los Angeles Unified School District
Debt Management Policy

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

(1) As of June 30, 2004. "General Fund Appropriations" includes said amounts based upon the District's Fiscal Year 2004-05 Final Budget.
(2) May increase with each approved issuance of certificates of participation.

Source: Los Angeles Unified School District.

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

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

Under State law, the District is required to maintain only one of the operating reserves, the Reserve for Economic Uncertainties. In Fiscal Year 2004-05, the District funded this reserve at the legally mandated minimum of 0.5%, or approximately $33.0 million. In Fiscal Year 2005-06, this reserve will be funded at the then legally mandated minimum of 1.0%, or approximately $66.0 million. The other reserves would be funded and phased in annually based on the Board's actions.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District and is currently $8.3 billion. The District's unused bonding capacity is approximately $3.8 billion. The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued $2.4 billion in general obligation bonds pursuant to an authorization approved by voters in the April 8, 1997 election ("Proposition BB"). A $3.35 billion general obligation bond authorization was approved by voters on November 5, 2002 ("Measure K"). The District issued the first series of Measure K general obligation bonds in March 2003 in the aggregate principal amount of $2.1 billion. A $3.87 billion general obligation bond authorization was approved by voters on March 2, 2004 ("Measure R"). The District issued $200,000,000 aggregate principal amount of Measure R bonds in September 2004.

The following tables set forth the voter authorized amounts and the outstanding bonds issued under Proposition BB, Measure K and Measure R.

Voter Authorized Amounts

	Proposition BB (1997) Bonds	Measure K Bonds	Measure R Bonds
Voter Authorization Amount ($ in thousands)	$2,400,000[(1)]	$3,350,000	$3,870,000
Authorized but Unissued ($ in thousands)	0	$1,250,000	$3,670,000

(1) $215.68 million principal amount of the Proposition BB bonds were refunded with the proceeds of the 2004 Refunding Bonds referenced in the following table.

Source: Los Angeles Unified School District.

Proposition BB (1997) Bonds

Bonds Issued	Principal Amount ($ in thousands)	Outstanding Amount as of June 1, 2005 ($ in thousands)	Date of Issue
Series A Bonds	$ 356,000[(1)]	$ 279,185	July 22, 1997
Series B Bonds	350,000[(2)]	206,600	August 25, 1998
Series C Bonds	300,000[(1)(2)]	178,470	August 10, 1999
Series D Bonds	386,655[(1)(2)]	141,060	August 3, 2000
Series E Bonds	500,000[(1)]	399,090	April 11, 2002
2002 Refunding Bonds[(3)]	258,375	254,085	April 17, 2002
Series F Bonds	507,345	507,345	March 13, 2003
2004 Refunding Bonds[(3)]	219,125	219,125	December 21, 2004
		$2,184,960	

(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) $262.7 million principal amount of Series B, C and D Bonds were refunded with the proceeds of the 2002 Refunding Bonds.
(3) Refunding bonds are not counted against bond authorization limit.

Source: Los Angeles Unified School District.

Measure K Bonds

Bonds Issued	Principal Amount ($ in thousands)	Outstanding Amount as of June 1, 2005 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000	$2,100,000	March 5, 2003

Source: Los Angeles Unified School District.

Measure R Bonds

Bonds Issued	Principal Amount	Outstanding Amount as of June 1, 2005 ($ in thousands)	Date of Issue
Series A Bonds	$72,630,000	$72,630	September 23, 2004
Series B Bonds	60,475,000	60,475	September 23, 2004
Series C Bonds	50,000,000	50,000	September 23, 2004
Series D Bonds	16,895,000	16,895	September 23, 2004
		$200,000	

Source: Los Angeles Unified School District.

Certificates of Participation. As of June 1, 2005, 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 $599.6 million. Set forth below is the District's gross lease obligations with respect to its outstanding certificates of participation.

Los Angeles Unified School District
Certificates of Participation Lease Obligations
Gross Debt Service[1]
As of June 1, 2005
($ in thousands)

Fiscal Year Ending June 30	Paid From General Fund	Paid From Developer Fees[2]	Total
2005	-	$ 300	$ 300
2006	$ 7,011	21,788	28,799
2007	30,891	21,336	52,227
2008	38,903	20,858	59,761
2009	54,917	14,357	69,274
2010	51,270	14,383	65,652
2011	47,843	14,409	62,251
2012	47,825	13,296	61,122
2013	35,757	13,310	49,068
2014	25,606	16,153	41,760
2015	25,262	10,627	35,889
2016	15,887	10,619	26,506
2017	15,902	10,699	26,601
2018	15,909	4,114	20,023
2019	15,917	4,116	20,033
2020	15,922	4,124	20,046
2021	15,933	4,129	20,062
2022	15,934	4,131	20,065
2023	15,945	4,140	20,085
2024	14,976	4,144	19,121
2025	14,606	4,150	18,756
2026	14,882	4,157	19,039
2027	14,879	-	14,879
2028	14,885	-	14,885
2029	14,878	-	14,878
2030	12,571	-	12,571
2031	12,573	-	12,573
2032	11,968	-	11,968
Total	$618,852	$219,342	$838,194

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

Source: Los Angeles Unified School District.

Other Long Term Obligations. In addition, the District anticipates a November 2005 authorization to issue up to $3.85 billion of general obligation bonds will be submitted to the voters in the District. The following table summarizes the District's other long-term obligations as of June 30, 2004.

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

	Audited Balance As of June 30, 2004
Claims and judgments	$568,732
Compensated absences	77,313
Revolving loan and other loans	792
State school building fund	1,602
Capital leases payable	13,471
TOTAL	$661,910

Source: District Comprehensive Annual Financial Report, June 30, 2004.

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 and $3.67 billion remaining under Measure R. It is anticipated that the remaining voter authorization under Measure K and Measure R will be used through the annual issuance of multiple series of bonds over future years as required to finance various elements of the District's capital needs. The District anticipates issuing, in August 2005, a series of general obligation bonds, designated "Election of 2004, Series E" in an aggregate amount not exceeding $900 million. In addition, the District anticipates a November 2005 ballot measure pursuant to Proposition 39 at which authorization to issue up to $3.85 billion of general obligation bonds will be submitted to the voters in the District.

Certificates of Participation. The District expects that, from time to time, additional capital projects will be approved by the Board of Education for funding through the execution and delivery of certificates of participation so long as each given project has an economically compelling rationale. By October 2005, the District may issue up to $10 million principal amount of certificates of participation in accordance with the qualified zone academy bonds tax credit program (the "QZAB Program").

Tax and Revenue Anticipation Notes. The District issued tax and revenue anticipation notes annually from Fiscal Years 1982-83 to 1985-86 and from Fiscal Years 1990-91 to 2003-04 to partially fund timing differences between receipts and disbursements. On September 1, 2004, the District issued $500 million 2004-05 Tax and Revenue Anticipation Notes which mature on September 1, 2005. All amounts needed to pay these tax and revenue anticipation notes have been deposited into a trust account. The District anticipates issuing tax and revenue anticipation notes during Fiscal Year 2005-06, in an amount not to exceed $750 million, but the size of such an issuance is not yet known.

Overlapping Debt Obligations

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated June 1, 2005. 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 the table 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 the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of June 1, 2005

LOS ANGELES UNIFIED SCHOOL DISTRICT

2004-05 Assessed Valuation:	$331,925,136,460
Redevelopment Incremental Valuation:	18,491,328,644
Adjusted Assessed Valuation:	$313,433,807,816

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/1/05	
Los Angeles County	46.161%	$ 7,480,390	
Los Angeles County Flood Control District	46.653	56,860,676	
Metropolitan Water District	23.526	98,383,379	
Los Angeles Community College District	81.734	603,752,711	
Los Angeles Unified School District	**100.**	**4,484,960,000**	**(1)**
City of Los Angeles	99.915	1,417,773,867	
Other Cities	Various	13,935,452	
Palos Verdes Library District	4.883	550,558	
City Community Facilities Districts	100.	146,680,000	
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.	100,410,000	
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.915	193,130,699	
City of Los Angeles Assessment District No. 1	100.	12,311,286	
Other City and Special District 1915 Act Bonds	100.	30,680,849	
Los Angeles County Regional Park & Open Space Assessment District	46.161	161,420,401	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$7,328,330,268	

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
Los Angeles County General Fund Obligations	46.161 %	$ 641,383,989	
Los Angeles County Pension Obligations	46.161	609,718,674	
Los Angeles County Superintendent of Schools Certificates of Participation	46.161	10,970,828	
Pasadena Area Community College District Certificates of Participation	0.0003	15	
Los Angeles Unified School District Certificates of Participation	**100.**	**599,653,350**	
City of Los Angeles General Fund and Judgment Obligations	99.915	1,234,203,035	
Other City General Fund Obligations	Various	124,562,057	
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	61,235,866	
San Gabriel Valley Mosquito Abatement District Certificates of Participation	0.193	1,940	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$3,281,729,754	
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		25,547,805	
City self-supporting bonds		15,106,582	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$3,241,075,367	
GROSS COMBINED TOTAL DEBT		$10,610,060,022	(2)
NET COMBINED TOTAL DEBT		$10,569,405,635	

(1) Excludes general obligation bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:	
Direct Debt ($4,484,960,000)	**1.35%**
Total Overlapping Tax and Assessment Debt	2.21%

Ratios to Adjusted Assessed Valuation:	
Combined Direct Debt ($5,084,613,350)	**1.62%**
Gross Combined Total Debt	3.39%
Net Combined Total Debt	3.37%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: $1,602,355

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

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

Article XIIIA of the California Constitution

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

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

Legislation Implementing Article XIIIA

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

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 is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIA Litigation

In a Minute Order issued on November 2, 2001 in *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. Orange County appealed the case to the California Court of Appeal and, on March 26, 2004, the Court of Appeal reversed the Superior Court concluding that the base on which the inflation factor is calculated remains that of the valuation as shown on the Fiscal Year 1975-76 tax bill or, thereafter, the appraised value when purchased, newly constructed, or a change in ownership has occurred, not any reduced base resulting from a reassessment in the wake of a decline in property values, and, therefore, that increases in assessed value by more than 2% in a single year after previous reductions do not necessarily violate Article XIIIA. On May 6, 2004, the plaintiffs filed a petition for review of the Appellate Court decision in the California Supreme Court. On July 21, 2004 the California Supreme Court denied the petition for review.

Article XIIIB of the California Constitution

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

Article XIIIC and Article XIIID of the California Constitution

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

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

Proposition 62

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

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

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

Proposition 98

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

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

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, 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 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 includes trailer bill legislation suspending the Proposition 98 minimum guarantee for 2004-05. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIIIB limit to K-14 districts.

Application of Proposition 98

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past Fiscal Years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of $1.3 billion during Fiscal Year 1990-91, $1.1 billion during Fiscal Year 1991-92, $1.3 billion during Fiscal Year 1992-93 and $787 million during Fiscal Year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling $1.760 billion. The State proposed that repayment of this loan would be from future years' Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

Substantially increased State General Fund revenues, above initial budget projections, in the Fiscal Years 1994-95 and thereafter have resulted or will result in retroactive increases in Proposition 98 appropriations from subsequent Fiscal Years' budgets. Because of the State's increasing revenues, per-pupil funding at the K-12 level increased by about 42% from the level in place from 1991-92 through 1993-94. A significant amount of the "extra" Proposition 98 moneys in the last few years has been allocated to special programs, most particularly an initiative to allow each classroom from grades K-3 to have no more than 20 pupils by the end of the 1997-98 school year. See "State Budget" above for a discussion of current Proposition 98 appropriations.

Proposition 39

Proposition 39 which was approved by California voters in November, 2000, and provides an alternative method for passage of school facilities bond measures which lowers the constitutional voting requirement from two-thirds to 55% of voters and allows property taxes to exceed the current 1% limit in order to repay such bonds. The lower 55% vote requirement would apply only to bond issues to be used for construction, rehabilitation, equipping of school facilities or the acquisition of real property for school facilities. The 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 and Measure R bond programs were both authorized pursuant to Proposition 39. The District is in full compliance with all Proposition 39 requirements.

State School Facilities Bonds

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

Proposition 47 represents the second large general obligation bond measure for school construction and modernization approved by California voters in the last several years. Proposition 1A was previously approved in November 1998 and provided $6.7 billion of capital funding for schools.

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

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

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

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

State Bond Measure	New Construction	Modernization	Total
Proposition 1A	$ 933	$202	$1,135
Proposition 47	1,135	122	1,257
Proposition 55	1,371	450	1,821
Total	$3,439	$774	$4,213

Source: Los Angeles Unified School District.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 39, 62, 98, 1A, 47 and 55 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, further affecting District revenues or the District's ability to expend revenues.

REGIONAL ECONOMY

The general information in this section concerning the City of Los Angeles (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 of the County.

Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2000 through 2004.

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

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2000	$37,321	$41,627	$44,464	$39,129
2001[(2)]	--	--	--	--
2002	36,548	40,789	43,532	38,365
2003	33,398	37,983	42,484	38,035
2004	33,541	41,237	42,924	38,201

(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 to produce current year estimates. Therefore, 2001 estimates are not available.

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

The following table shows the distribution of effective buying income by income groupings per household for the City, the County and the State.

Income Groupings 2004
(Percent of Households)

Income Per Household	City of Los Angeles	County of Los Angeles	State of California
$20,000-34,999	24.0%	21.4%	20.7%
35,000-49,999	16.9	18.2	18.6
50,000 & Over	30.8	39.4	41.2

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

Employment

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

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

Labor Force and Employment in Los Angeles County[1]

	2000	2001	2002	2003	2004
Civilian Labor Force[2]	4,671,800	4,777,000	4,789,800	4,788,800	4,859,070
Employment	4,421,900	4,506,900	4,465,600	4,451,700	4,567,820
Unemployment	249,900	270,100	324,200	337,100	291,250
Unemployment Rate	5.3%	5.7%	6.8%	7.0%	6.0%
Wage and Salary Employment[3]:					
Farm	7,700	8,400	7,800	7,900	6,600
Natural Resources and Mining	3,400	3,800	3,700	3,800	4,000
Construction	131,700	136,800	134,500	133,500	141,000
Manufacturing	611,300	577,900	534,800	500,000	478,200
Trade, Transportation and Utilities	784,800	789,800	782,700	777,200	802,500
Information	242,600	226,300	207,300	198,800	203,200
Financial Activities (Finance, Insurance, Real Estate)	218,700	228,900	232,600	239,800	245,000
Business and Professional Services	598,200	588,000	575,000	568,400	570,500
Education and Health Services	416,200	432,200	450,400	460,300	476,600
Leisure and Hospitality	344,300	348,500	354,200	363,500	372,400
Other Services	139,700	143,200	145,600	145,800	144,900
Government	581,300	598,300	606,100	599,200	588,200
Total	4,079,800	4,082,000	4,034,600	3,998,100	4,033,100

(1) Columns may not add to totals due to independent rounding.
(2) Based on place of residence.
(3) Based on place of work.

Source: State Department of Employment Development.

Commercial Activity

The following table indicates the history of taxable transactions for the County for the years 1999 through 2003.

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

	1999	2000	2001	2002	2003[1]
Retail Stores:					
Apparel Stores	$3,326,341	$3,669,195	$3,812,218	$4,306,630	$4,356,666
General Merchandise Stores	9,900,681	10,577,863	10,860,214	11,196,707	11,749,089
Specialty Stores	10,741,310	11,754,467	11,541,707	11,638,907	12,107,226
Food Stores	4,036,021	4,212,973	4,210,291	4,235,299	4,240,110
Eating/Drinking Places	9,003,489	9,716,805	10,081,425	10,541,880	11,151,772
Household Furnishings and Appliances	2,979,519	3,272,358	3,193,526	3,378,316	3,717,168
Building Materials	4,153,209	4,821,940	5,069,789	5,528,888	6,016,548
Automotive	17,556,526	20,594,140	21,387,319	22,273,351	24,307,334
Other Retail Stores	1,573,983	1,701,638	1,678,073	1,717,999	1,778,813
Retail Store Total	$63,271,079	$70,321,379	$71,834,562	$74,547,977	$79,426,726
Business and Personal Services	4,946,469	5,199,902	5,134,859	5,055,527	5,066,634
All Other Outlets	29,099,280	31,152,253	30,457,271	29,149,560	29,192,062
Total All Outlets	$ 97,316,828	$106,673,534	$107,426,692	$108,753,064	$113,685,422
Number of permits	268,310	268,431	272,973	281,496	289,892

(1) Latest information available.

Source: 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 major non-governmental employers in the County are shown below.

Los Angeles County
Major Non-Governmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	29,225
The Boeing Co.	Aerospace high technology	22,058
Northrop Grumman Corp.	Aerospace/Defense design and manufacturing	20,000
Ralph's Grocery Co.	Supermarket operator	16,855
Target	Department retailer	12,137
University of Southern California	Education- private university	11,703
Tenet Healthcare Corp	Hospitals	11,673
Bank of America	Commercial banking	11,110
CPE	Employee benefit consultants	10,945
SBC Pacific Bell	Communications	9,977
ABM Industries, Inc.	Janitorial, lighting, parking and security service	9,650
Washington Mutual Inc.	Commercial banking	8,129
Cedars-Sinai Medical Center	Medical center	6,831
Catholic Healthcare West	Hospitals	6,718
AOL Time Warner	Media and entertainment	6,700
Edison International	Electric utility	5,956
Sempra Energy	Energy services	5,877
Amgen Inc.	Biotechnology	5,813
Countrywide Financial Corp.	Home mortgage origination and service	5,661
Providence Health System	Full service medical facilities	5,436
Daughters of Charity Health System	Health care provider	4,056
Children's Hospital Los Angeles	Medical center	3,986
Adventist Health	Hospitals	3,832
Lockheed Martin Corp	Defense, space, information, technology	3,811
Wellpoint Health Networks, Inc.	Health plans	3,458

Source: Los Angeles Business Journal, "The Lists 2004."

Construction

The number of units authorized in the residential construction market in the City increased from 7,361 in 2003 to 12,340 in 2004. There was also an increase in the valuation of permits for residential construction from $812.5 million in 2003 to $1.4 billion in 2004.

The following table provides a summary of new single-family and multi-family dwelling units and the valuation of permits for residential buildings from 1999 to 2004. Additional new construction takes place in the remaining areas of the District outside of the City although the separate statistics are not presented here.

City of Los Angeles
Permit Valuations and Units of Construction
1999 to 2004
($ in thousands)

Year	Valuation Residential	Single Family	New Dwelling Units Multi-Family	Total Units
1999	$352,864	1,344	2,689	4,033
2000	558,740	1,687	4,880	6,567
2001	720,277	1,587	5,475	7,062
2002	939,202	1,215	4,458	5,673
2003	812,450	1,432	5,929	7,361
2004	1,406,699	1,720	10,620	12,340

Source: Economic Sciences Corporation.

APPENDIX B

SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note C and Note D, the District's net assets as of June 30, 2003 were restated as the District changed the components of its reporting entity and changed its accounting for workers' compensation claim liabilities.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 13 and the pension plan supplemental information on page 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information listed in the supplementary section and the information on pages 179 to 192 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 193 and 194 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

January 7, 2005

Management's Discussion and Analysis

As management of the Los Angeles Unified School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages **i - xi** of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3.8 billion (*net assets*). Of this amount, $73.6 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets decreased by $10.7 million, due mainly to higher salaries and employee benefits.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $3.6 billion, a decrease of $788.0 million from June 30, 2003.
- At the end of the current fiscal year, unreserved fund balance for the general fund, including designated for economic uncertainties, was $152.8 million, or 2.6 percent of total general fund expenditures.
- The District's total obligations decreased by $17.2 million (0.3 percent) during the current fiscal year. The decrease resulted from repayments of general obligation bonds and certificates of participation offset by an increase in liability for self-insurance claims.

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 relate to functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District are all related to public education.

The government-wide financial statements can be found on pages 14-15 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 19 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and building fund-Measure K. Data from the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is 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 16-19 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance Funds. The first two are considered to be major funds of the District.

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

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

The proprietary fund financial statements can be found on pages 21-23 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 24-25 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 27-52 of this report.

Combining and individual fund statements and schedules. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 54-91 of this report.

Government-wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $3.8 billion at the close of the most recent year.

By far the largest portion of the District's net assets (70.8 percent) reflects its investments in capital assets (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets (in thousands)
As of June 30, 2004 and 2003

	Governmental Activities	
	2004	**2003** (restated)
Current assets	$ 5,920,977	$ 6,764,369
Capital assets	5,372,400	4,671,125
Total assets	$11,293,377	$11,435,494
Current liabilities	$ 1,747,587	$ 1,861,868
Long-term liabilities	5,755,080	5,772,241
Total liabilities	$ 7,502,667	$ 7,634,109
Net assets:		
Invested in capital assets, net of related debt	$ 2,682,203	$ 2,601,459
Restricted:		
Restricted for debt service	215,149	202,893
Restricted for program activities	819,747	693,042
Unrestricted	73,611	303,991
Total net assets	$ 3,790,710	$ 3,801,385

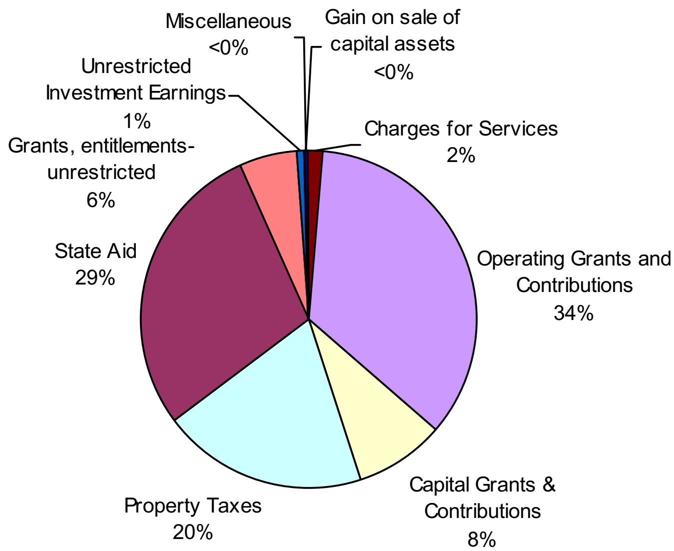
The District's 2003 financial information was restated for comparability purposes to reflect the exclusion of financial data relating to fiscally independent charter schools (see Note C – restatement – change in reporting entity).

Changes in Net Assets (in thousands)

	Governmental Activities 2004	Governmental Activities 2003 (restated)
Revenues:		
Program revenues:		
Charges for services	$ 110,156	$ 83,833
Operating grants and contributions	2,557,644	2,471,024
Capital grants and contributions	620,454	252,539
Total program revenues	3,288,254	2,807,396
General revenues:		
Property taxes levied for general purposes	1,199,891	1,098,628
Property taxes for debt service	236,121	112,310
Property taxes levied for community redevelopment	3,756	-
State aid	2,094,751	2,184,740
Grants, entitlements and contributions not restricted to specific programs	415,325	489,086
Unrestricted investment earnings	60,898	28,125
Miscellaneous	8,519	96,542
Total general revenues	4,019,261	4,009,431
Special item – gain on sale of capital assets	11,705	-
Total revenues and special item	7,319,220	6,816,827
Expenses:		
Instruction	3,762,124	3,636,171
Support services:		
Support services – students	292,578	303,485
Support services – instructional staff	725,187	722,481
Support services – general administration	48,074	50,147
Support services – school administration	418,022	399,714
Support services – business	156,713	176,000
Operation and maintenance of plant services	631,941	591,796
Student transportation services	177,416	165,559
Data processing services	251,850	229,931
Operation of non-instructional services	254,493	268,327
Facilities acquisition and construction services	242,761	191,848
Other uses	661	460
Interest expense	233,585	92,250
Interagency disbursements	32,996	13,873
Depreciation – unallocated	101,494	53,054
Total expenses	7,329,895	6,895,096
Change in net assets	(10,675)	(78,269)
Net assets – beginning	3,801,385	3,879,654
Net assets – ending	$3,790,710	$3,801,385

The District's 2003 financial information was restated for comparability purposes to reflect the exclusion of financial data relating to fiscally independent charter schools (see Note C – restatement – change in reporting entity).

Revenues by Source
Year Ended June 30, 2004



An additional portion of the District's net assets (27.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($73.6 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 District's net assets decreased by $10.7 million in the current fiscal year. The major components of this decrease are as follows:

- Capital grants and contributions increased by $367.9 million primarily due to school facilities apportionments funded from issuance of State bonds.
- Total expenses increased by $415.7 million primarily due to higher salaries and employee benefits and higher interest expense resulting from additional issuances of general obligation bonds and certificates of participation in the prior year.

While the net change in governmental funds decreased by $788.0 million, offsets due to capital outlays, which constitute long-term capital assets, is a significant reason why the decrease in net assets is significantly less.

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 $3.6 billion, a decrease of $788.0 million in comparison with the prior year. Approximately 88.9 percent of this total amount ($3.2 billion) constitutes *unreserved fund balance,* which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for: 1) debt service ($205.8 million), 2) legally restricted balances ($152.3 million), 3) inventories and prepaid expenses ($34.4 million), and 4) revolving cash ($5.9 million).

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was $152.8 million, while total fund balance reached $324.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.6 percent of total general fund expenditures, while total fund balance represents 5.4 percent of that same amount.

The fund balance of the District's general fund decreased by $255.1 million during the current fiscal year. The key factors for the decrease were an increase in salaries and employee benefits and an increase in interfund transfers to the Capital Services Fund to meet debt service requirements on certificates of participation.

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

	Building – Measure K	Building – Bond Proceeds	Special Reserve	County School Facilities	County School Facilities – Prop 47
Fund Balance, June 30, 2004					
Reserved for revolving cash	$ -	$ 3,000	$ -	$ -	$ -
Reserved for prepaid expenses	-	9,687	-	-	-
Unreserved	1,676,001	483,342	311,111	332,078	74,113
Total	1,676,001	496,029	311,111	332,078	74,113
Fund Balance, July 1, 2003	2,057,527	877,738	436,377	49,326	7,790
Increase (Decrease) in Fund Balance	$ (381,526)	$(381,709)	$(125,266)	$282,752	$ 66,323

Fund balance decreased during the current year for the Building – Measure K, Building – Bond Proceeds and Special Reserve funds due to continuing school construction and renovation projects. For the County School Facilities and County School Facilities – Prop 47, the increase in fund balance was the result of apportionments funded from the State's bond proceeds.

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

At the end of the year, the District's only proprietary funds were *Internal Service Funds* which have negative unrestricted net assets of $138.3 million. The net decrease of $39.3 million in the current year is largely the result of rising costs of workers' compensation self-insurance claims.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a $140.2 million overall decrease in appropriations. This decrease resulted from a corresponding net decrease in revenues, which is comprised of an increase of approximately $100 million to budgeted regular program (non-categorical) revenue, offset by a decrease of approximately $245 million in budgeted specially funded program (categorical, or grant) revenue.

The decrease in grant income results from the District's budgeting practice for these programs, in which the entire budget for a multi-year grant is initially budgeted upon confirmation that grant funding will be provided, while the year-end budget reflects only the level of anticipated revenue to be received for the current fiscal year. The District intends to review this practice prior to budget development for the 2005-2006 fiscal year, and will seek to determine a budgeting methodology that will allow the budget to more accurately anticipate the actual level of categorical program revenues.

Actual General Fund revenues and expenditures were less than the final amended budget amounts primarily due to revenue shortfalls from certain grants resulting from lower than anticipated expenditures. These unspent grant amounts typically rollover to the following year.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2004, amounts to $5.4 billion (net of accumulated depreciation), a 15.0% 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 $2.2 billion.
- Various building additions and modernizations were completed at a cost of $167.1 million.

- Riordan Primary Center was opened in July 2003 and has the distinction of being the first school in Highland Park in 76 years.

Capital Assets (net of accumulated depreciation)
As of June 30, 2004 and 2003 (in thousands)

	Governmental Activities	
	2004	2003 (restated)
Sites	$ 1,231,876	$ 1,092,554
Improvement of sites	43,426	40,176
Buildings and improvements	1,421,708	1,539,751
Equipment	495,373	479,568
Construction in progress	2,180,017	1,519,076
Total	$ 5,372,400	$ 4,671,125

The District's 2003 financial information was restated for comparability purposes to reflect the exclusion of financial data relating to fiscally independent charter schools (see Note C – restatement – change in reporting entity).

Additional information on the District's capital assets can be found in Note I on page 37 of this report.

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of $5.8 billion. Of this amount, $4.3 billion comprises debt 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	
	2004	2003
General Obligation Bonds	$4,328,210	$4,364,490
State School Building Aid Fund	1,602	1,967
Liability - Compensated Absences	77,313	77,542
Certificates of Participation (COPs)	764,960	834,492
Children's Center Facilities Loan	792	792
Capital Leases	13,471	12,275
Self-insurance Claims	568,732	480,683
Total	$5,755,080	$5,772,241

The District's total obligations decreased by $17.2 million (0.3 percent) during the current fiscal year. The key factor in this decrease was the repayment of general obligation bonds and certificates of participation (COPs) offset by the increase in the liabilities for self-insurance claims.

No general obligation bonds or COPs were issued by the District in the current fiscal year. However, in July 2004, the District issued $57.625 million 2004A and B Certificates of Participation for Refinancing Project I and Refunding Project I. The District also issued $200 million in General Obligation Bonds, Election of 2004, Series A, B, C and D in September 2004.

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

State statutes limit the amount of general obligation debt a school district may issue to 2.5 percent of its total assessed valuation. The debt limitation for the District as of June 30, 2004 is $7.7 billion, which is in excess of the District's outstanding general obligation debt.

Additional information on the District's long-term obligations can be found in Notes K, L and M on pages 41-47 of this report.

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

State of California and Los Angeles Unified School District Fiscal Outlook

Governor Arnold Schwarzenegger signed the State Budget Act on July 31, 2004. The State Budget was balanced, in part, through the passage by the voters of a $15 billion general obligation bond (Proposition 57), which, with $16.1 billion in budget "solutions" over two years, enabled the State to fund K-12 education at essentially the 2003-2004 level. As part of a budgetary compromise between the Governor and elements of statewide K-12 education, it was agreed that in 2004-2005, public education would accept $2 billion less than the required Proposition 98 minimum for this year, to be repaid in future years as the State's economy improves. The State Budget did reflect a measure of guarded optimism, reducing the Revenue Limit deficit from 3% in 2003-2004 to 2.14% in 2004-2005, providing full funding for the 2004-2005 cost of living increase (COLA), as well as providing full funding for enrollment growth, $110 million statewide for limited statewide Revenue Limit Equalization, and $188 million statewide to cover costs of compliance with the *Williams, et al v. State of California* legal case.

The State's financial outlook for 2005-2006 and subsequent out-years remains a matter for considerable debate at the State level. The Governor's Office has indicated its belief that the State Budget will be balanced without the need for additional borrowing; the non-partisan Legislative Analyst's Office (LAO) has predicted a $6 billion statewide deficit in 2005-2006, increasing to $8 billion in 2006-2007. The District will continue to review State revenues closely to determine whether mid-year 2004-2005 reductions may be necessary, as well as whether the combination of State revenue shortfalls and the District's own expenditure requirements will require additional budget reductions in 2005-2006.

State revenue shortfalls in 2003-2004 had exacerbated a structural imbalance in the District's budget, and the effects of this imbalance, combined with essentially unchanged State revenues, continued to be felt in 2004-2005. In order to balance available General Fund resources (beginning balances and revenues) to expenditure requirements, District staff brought to the Board $536 million in proposed budget reductions and redirections, of which the Board had adopted $484 million prior to adoption of the June 30, 2005 Provisional Budget. Actions taken subsequently brought the total General Fund, Regular Program reductions and redirections to $551.8 million. Coupled with the recognition of a larger General Fund ending balance than anticipated in the Provisional Budget, these reductions enabled the District to balance the General Fund budget.

The District has continued to implement efforts to increase revenues and to build a budget that is both fiscally and structurally balanced. In June of 2004, for the first time in the District's history, the Board adopted a Budget and Finance policy which enumerates a wide variety of principles to be followed in future District budgets.

Among its precepts, the Budget and Finance Policy would require the District to begin the lengthy process of accumulating reserves to cover costs of outstanding liabilities such as long-term commitments for employee health care, liability self-insurance, and workers' compensation, as well as an emergency reserve in excess of the required Reserve for Economic Uncertainties and a reserve to cover costs of replacing equipment as it becomes damaged or obsolete. It would also call for a balancing of ongoing costs to ongoing revenues (so-called "structural balance"), and for the District to make efforts to maximize its revenues.

While the Budget and Finance Policy will become the District's official operating guide with the beginning of the 2005-2006 fiscal year, implementation of some of the precepts have already begun. A Revenue Enhancement Unit began operating prior to the beginning of the 2004-2005 fiscal year, seeking to maximize both governmental and private sources of funding to the District. A $183.4 million Reserve for Projected Ending Balance has been established, creating in the budget a more realistic picture of the District's financial expectations for the fiscal year.

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, 2004 (in thousands)

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	3,490,108
Investments		1,618,239
Property taxes receivable		137,575
Accounts receivable, net		614,630
Accrued interest and dividends receivable		10,819
Prepaid expense		24,959
Inventories		24,647
Capital assets, net		5,372,400
TOTAL ASSETS		11,293,377
LIABILITIES		
Vouchers and accounts payable		390,008
Contracts payable		123,225
Accrued payroll		230,559
Other payables		141,080
Deferred revenue		180,047
Tax and revenue anticipation notes and interest payable		682,668
Long-term liabilities:		
Portion due or payable within one year		311,191
Portion due or payable after one year		5,443,889
TOTAL LIABILITIES		7,502,667
NET ASSETS		
Invested in capital assets, net of related debt		2,682,203
Restricted for:		
Debt service		215,149
Program activities		819,747
Unrestricted		73,611
TOTAL NET ASSETS	$	3,790,710

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004 (in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRI-BUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRI-BUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
Governmental Activities					
Instruction	$ 3,762,124	$ 2,603	$ 1,128,068	$ -	$ (2,631,453)
Support Services - students	292,578	-	149,282	-	(143,296)
Support Services - instructional staff	725,187	350	578,661	-	(146,176)
Support services - general administration	48,074	-	26	-	(48,048)
Support services - school administration	418,022	-	105,859	-	(312,163)
Support services - business	156,713	323	114,992	-	(41,398)
Operation and maintenance of plant services	631,941	12,051	77,355	26,636	(515,899)
Student transportation services	177,416	-	163,879	-	(13,537)
Data processing services	251,850	-	2,832	-	(249,018)
Operation of non - instructional services	254,493	25,106	205,688	-	(23,699)
Facilities acquisition and construction services*	243,099	69,723	30,753	593,818	451,195
Other uses	661	-	249	-	(412)
Interest expense	233,585	-	-	-	(233,585)
Interagency disbursements**	32,996	-	-	-	(32,996)
Depreciation - unallocated***	101,156	-	-	-	(101,156)
Total	$ 7,329,895	$ 110,156	$ 2,557,644	$ 620,454	(4,041,641)

General Revenues:	
Taxes:	
Property taxes, levied for general purposes	1,199,891
Property taxes, levied for debt service	236,121
Property taxes, levied for community redevelopment	3,756
State aid - formula grants	2,094,751
Grants, entitlements and contributions not restricted to specific programs	415,325
Unrestricted investment earnings	60,898
Miscellaneous	8,519
Special item - gain on sale of capital assets	11,705
Total general revenues and special items	4,030,966
Change in net assets	(10,675)
Net assets - beginning (restated)	3,801,385
Net assets - ending	$ 3,790,710

* 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, 2004 (in thousands)

	GENERAL	BUILDING-MEASURE K	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash in county treasury, banks, and on hand	$ 419,490	$ 864,703	$ 1,482,776	$ 2,766,969
Cash held by trustee	117,651	-	195,081	312,732
Investments	682,650	900,904	34,685	1,618,239
Taxes receivable	121,388	-	16,187	137,575
Accounts receivable - net	509,539	-	103,119	612,658
Accrued interest and dividends receivable	3,845	2,277	3,384	9,506
Prepaid expenditures	107	-	9,687	9,794
Due from other funds	928,352	25,623	100,163	1,054,138
Inventories	16,209	-	8,438	24,647
TOTAL ASSETS	$ 2,799,231	$ 1,793,507	$ 1,953,520	$ 6,546,258
LIABILITIES				
Vouchers and accounts payable	$ 270,220	$ 38,329	$ 54,426	$ 362,975
Contracts payable	762	44,706	77,757	123,225
Accrued payroll	215,728	1,014	16,539	233,281
Other payables	96,788	-	35,702	132,490
Due to other funds	919,556	33,457	138,813	1,091,826
Deferred revenue	289,527	-	28,095	317,622
Tax and revenue anticipation notes and interest payable	682,668	-	-	682,668
TOTAL LIABILITIES	2,475,249	117,506	351,332	2,944,087
FUND BALANCES				
Fund balances:				
Reserved	171,216	-	227,216	398,432
Unreserved:				
Designated	121,398	1,676,001	-	1,797,399
Designated, reported in:				
Special revenue funds	-	-	43,554	43,554
Capital projects funds	-	-	1,330,959	1,330,959
Undesignated	31,368	-	-	31,368
Undesignated, reported in Special revenue funds	-	-	459	459
TOTAL FUND BALANCES	323,982	1,676,001	1,602,188	3,602,171
TOTAL LIABILITIES AND FUND BALANCES	$ 2,799,231	$ 1,793,507	$ 1,953,520	$ 6,546,258

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, 2004 (in thousands)

Total fund balances - governmental funds	$	3,602,171
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 $7,573,418 and the accumulated depreciation is $2,201,018.		5,372,400
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.		137,575
An internal service fund is used by the district's management to charge the costs of health and welfare, worker's 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.		(138,328)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(5,183,108)
Total net assets - governmental activities	$	3,790,710

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004 (in thousands)

	GENERAL	BUILDING-MEASURE K	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Revenue limit sources	$ 3,300,784	$ -	$ 136,055	$ 3,436,839
Federal revenues	720,204	-	264,278	984,482
Other state revenues	1,749,096	-	684,977	2,434,073
Other local revenues	78,045	32,441	340,734	451,220
TOTAL REVENUES	5,848,129	32,441	1,426,044	7,306,614
EXPENDITURES				
Current:				
Certificated salaries	2,919,412	-	136,070	3,055,482
Classified salaries	880,435	14,312	170,662	1,065,409
Employee benefits	1,196,531	5,819	110,537	1,312,887
Books and supplies	352,137	1,255	114,644	468,036
Services and other operating expenditures	575,363	56,932	189,939	822,234
Capital outlay	44,333	335,649	623,586	1,003,568
Debt service - principal	6,434	-	107,716	114,150
Debt service - bond, COPs and capital leases interest	904	-	224,670	225,574
Debt service - TRANS interest	6,472	-	-	6,472
Other outgo	40,529	-	-	40,529
TOTAL EXPENDITURES	6,022,550	413,967	1,677,824	8,114,341
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(174,421)	(381,526)	(251,780)	(807,727)
OTHER FINANCING SOURCES (USES)				
Transfers in	8,345	-	163,803	172,148
Transfers-support costs	5,667	-	(5,667)	-
Transfers out	(114,196)	-	(57,738)	(171,934)
Special item				
Proceeds from Sullivan Canyon sale	11,918	-	-	11,918
Proceeds from capital leases	7,630	-	-	7,630
TOTAL OTHER FINANCING SOURCES (USES)	(80,636)	-	100,398	19,762
NET CHANGE IN FUND BALANCES	(255,057)	(381,526)	(151,382)	(787,965)
FUND BALANCES, JULY 1, 2003 (restated)	579,039	2,057,527	1,753,570	4,390,136
FUND BALANCES, JUNE 30, 2004	$ 323,982	$ 1,676,001	$ 1,602,188	$ 3,602,171

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 BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004 (in thousands)

Total net change in fund balances - governmental funds	$ (787,965)
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 ($1,003,568) exceeds depreciation ($302,080) and loss on equipment disposal ($32) in the period.	701,456
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.	(7,630)
In the statement of activities, only the gain on the sale of land is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the land sold.	(181)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	114,248
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.	9,584
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.	755
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. The additional interest reported in the statement of activities is the result of accrued interest on the District's certificates of participation.	(1,637)
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.	(39,305)
Change in net assets of governmental activities	$ (10,675)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004 (in thousands)

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET*
REVENUES				
Revenue limit sources	$ 3,297,019	$ 3,342,543	$ 3,300,784	$ (41,759)
Federal revenues	1,062,457	983,666	720,204	(263,462)
Other state revenues	2,016,808	1,889,318	1,749,096	(140,222)
Other local revenues	92,512	86,143	78,045	(8,098)
TOTAL REVENUES	6,468,796	6,301,670	5,848,129	(453,541)
EXPENDITURES				
Current:				
Certificated salaries	3,026,731	2,949,066	2,919,412	(29,654)
Classified salaries	944,250	936,648	880,435	(56,213)
Employee benefits	1,212,422	1,212,270	1,196,531	(15,739)
Books and supplies	566,549	435,262	352,137	(83,125)
Services and other operating expenditures	656,613	703,680	575,363	(128,317)
Capital outlay	66,403	148,852	44,333	(104,519)
Debt service - principal	7,000	6,434	6,434	-
Debt service - bond, COPs and capital leases interest	-	904	904	-
Debt service - TRANS interest	-	6,472	6,472	-
Other outgo	366,293	273,545	40,529	(233,016)
TOTAL EXPENDITURES	6,846,261	6,673,133	6,022,550	(650,583)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(377,465)	(371,463)	(174,421)	197,042
OTHER FINANCING SOURCES (USES)				
Transfers in	11,998	12,994	8,345	(4,649)
Transfers-support costs	7,648	(7,856)	5,667	13,523
Transfers out	(143,115)	(160,563)	(114,196)	46,367
Special item				
Proceeds from Sullivan Canyon sale	-	11,918	11,918	-
Proceeds from CA Energy Commission loan	-	1,300	-	(1,300)
Proceeds from capital leases	-	-	7,630	7,630
TOTAL OTHER FINANCING SOURCES (USES)	(123,469)	(142,207)	(80,636)	61,571
NET CHANGE IN FUND BALANCES	(500,934)	(513,670)	(255,057)	258,613
FUND BALANCES, JULY 1, 2003	579,039	579,039	579,039	-
FUND BALANCES, JUNE 30, 2004	$ 78,105	$ 65,369	$ 323,982	$ 258,613

* 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, 2004 (in thousands)

	HEALTH AND WELFARE BENEFITS	WORKERS' COMPENSATION	NONMAJOR	TOTAL
ASSETS				
Cash in county treasury, banks, and on hand	$ 70,260	$ 329,846	$ 10,301	$ 410,407
Accounts receivable - net	765	1,165	-	1,930
Accrued interest and dividends receivable	254	1,022	37	1,313
Prepaid expenses	9,352	-	5,813	15,165
Due from other funds	10,962	17,619	15,605	44,186
TOTAL ASSETS	91,593	349,652	31,756	473,001
LIABILITIES				
Current:				
Vouchers and accounts payable	24,824	1,573	636	27,033
Accrued payroll	184	652	200	1,036
Other payables	592	7,480	-	8,072
Due to other funds	215	4,675	1,566	6,456
Estimated liability for self-insurance claims	35,885	123,679	23,041	182,605
Noncurrent:				
Estimated liability for self-insurance claims	-	386,127	-	386,127
TOTAL LIABILITIES	61,700	524,186	25,443	611,329
TOTAL NET ASSETS (DEFICIT)-UNRESTRICTED	$ 29,893	$ (174,534)	$ 6,313	$ (138,328)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004 (in thousands)

	HEALTH AND WELFARE BENEFITS	WORKERS' COMPENSATION	NONMAJOR	TOTAL
OPERATING REVENUES				
In-District premiums	$ 648,473	$ 173,489	$ 15,562	$ 837,524
TOTAL OPERATING REVENUES	648,473	173,489	15,562	837,524
OPERATING EXPENSES				
Certificated salaries	-	-	116	116
Classified salaries	1,089	3,101	560	4,750
Employee benefits	640	1,213	235	2,088
Supplies	90	205	44	339
Premiums and claims expenses	642,001	203,115	14,404	859,520
Claims administration	-	12,506	614	13,120
Other contracted services	833	(250)	-	583
TOTAL OPERATING EXPENSES	644,653	219,890	15,973	880,516
OPERATING INCOME (LOSS)	3,820	(46,401)	(411)	(42,992)
NONOPERATING REVENUES				
Interest income	569	3,023	23	3,615
Other local income	72	-	-	72
TOTAL NONOPERATING REVENUES	641	3,023	23	3,687
CHANGE IN NET ASSETS (DEFICIT)	4,461	(43,378)	(388)	(39,305)
TOTAL NET ASSETS (DEFICIT), JULY 1, 2003 (restated)	25,432	(131,156)	6,701	(99,023)
TOTAL NET ASSETS (DEFICIT), JUNE 30, 2004	$ 29,893	$ (174,534)	$ 6,313	$ (138,328)

See accompanying notes to basic financial statements

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004 (in thousands)

	HEALTH AND WELFARE BENEFITS	WORKERS' COMPENSATION	NONMAJOR	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash payments to employees for services	$ (1,057)	$ (3,723)	$ (475)	$ (5,255)
Cash payments for goods and services	(641,379)	(123,608)	(11,941)	(776,928)
Receipts from assessment to other funds	679,629	163,150	15,828	858,607
Other operating revenue	8,040	-	-	8,040
Net cash provided by operating activities	45,233	35,819	3,412	84,464
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	477	3,080	143	3,700
Net cash provided by investing activities	477	3,080	143	3,700
Net increase in cash and cash equivalents	45,710	38,899	3,555	88,164
Cash and cash equivalents, July 1	24,550	290,947	6,746	322,243
Cash and cash equivalents, June 30	$ 70,260	$ 329,846	$ 10,301	$ 410,407
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 3,820	$ (46,401)	$ (411)	$ (42,992)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(763)	(938)	152	(1,549)
(Increase) decrease in prepaid expense	(5,353)	-	388	(4,965)
(Increase) decrease in due from other funds	19,348	(7,092)	482	12,738
Increase (decrease) in vouchers and accounts payable	22,402	584	(1,018)	21,968
Increase in accrued payroll	32	250	78	360
Increase in other payables	424	6,609	-	7,033
Increase in due to other funds	97	2,263	1,461	3,821
Increase in estimated liability for self-insurance claims - current	5,226	58,030	2,280	65,536
Increase in estimated liability for self-insurance claims - noncurrent	-	22,514	-	22,514
Total adjustments	41,413	82,220	3,823	127,456
Net cash provided by operating activities	$ 45,233	$ 35,819	$ 3,412	$ 84,464

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004 (in thousands)

	PENSION TRUST FUNDS	AGENCY FUND
ASSETS		
Cash in county treasury, banks, and on hand	$ 18,224	$ 23,054
Investments	608	-
Due from Primary Government	9	-
Accrued interest and dividends receivable	61	-
TOTAL ASSETS	18,902	23,054
LIABILITIES		
Accrued payroll	1	-
Other payables	18,225	23,054
Due to Primary Government	51	-
TOTAL LIABILITIES	18,277	23,054
TOTAL NET ASSETS - held in trust	$ 625	$ -

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
For the Year Ended June 30, 2004 (in thousands)

ADDITIONS	
Investment income	$ 1,265
Unrealized loss on aggregate current value of investments	(544)
TOTAL ADDITIONS	721
DEDUCTIONS	
Distributions to participants	7,612
Interfund transfer	214
TOTAL DEDUCTIONS	7,826
CHANGE IN NET ASSETS	(7,105)
TOTAL NET ASSETS, JULY 1, 2003	7,730
TOTAL NET ASSETS, JUNE 30, 2004	$ 625

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

   Blended component units. The LAUSD Finance Corporation and the LAUSD Administration Building Finance Corporation (the Corporations) were formed in 2000 and 2001, respectively, to finance properties leased by the District. The Corporations have a financial and operational relationship which meets the reporting entity definition criteria of Governmental Accounting Standards Board (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 and upon dissolution of the Corporations, title to all Corporation property will pass to the District.

2) Government-wide and Fund Financial Statements – With the implementation of GASB Statement Nos. 34, 37, 38 and Interpretation No. 6, the District's basic financial statements consist of the traditional fund financial statements and new government-wide statements which are intended to provide an overall viewpoint of the District's finances. The government-wide financial statements, which are the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary district funds excluding the effect of interfund activities. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are primarily supported by fees and service charges. The District does not conduct any business-type activities.

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

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

3) Measurement Focus and Basis of Accounting - The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

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

Federal revenues and State apportionments and allowances are determined to be available and measurable when entitlement occurs or related eligible expenditures are incurred. Secured and unsecured property taxes estimated to be collectible and receivable within 60 days of the current period are recorded as revenue, while those estimated to be received after 60 days from the end of the fiscal period are recorded as receivables and deferred revenue. Investment income is accrued when earned. All other revenues are not considered susceptible to accrual.

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

4) Financial Statement Presentation

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

- Management's Discussion and Analysis is a narrative introduction and analytical overview of the District's financial activities as required by GASB Statement No. 34. This narrative overview is in a format similar to that in the private sector's corporate annual reports.

- Government-wide financial statements are prepared using full accrual accounting for all of the District's activities. Therefore, current assets and liabilities, capital and other long-term assets, and long-term liabilities are included on the financial statements.

- Statement of Net Assets displays the financial position of the District including all capital assets and related accumulated depreciation and long-term liabilities.

- Statement of Activities focuses on the cost of functions and programs and the effect of these on the District's net assets. This financial report is also prepared using the full accrual basis and shows depreciation expense.

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

Governmental Funds – The District has the following major governmental funds for the fiscal year 2003-2004:

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.

Building Fund – Measure K – The Building Fund – Measure K was established on January 14, 2003 to account for revenues received as a result of the issuance of General Obligation Bonds (G.O. Bonds) authorized pursuant to ballot measure "Measure K" in the November 2002 election.

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 General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, Building – Bond Proceeds, 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, and County School Facilities – Prop 47. Building Fund – Measure K is a major fund in fiscal year 2003-2004 and is reported separately.

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 and Workers' Compensation Self-insurance funds are reported as major proprietary funds. 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.

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. Prior to June 30, 2004, the District recorded estimated claim liabilities to the extent funded (see Note B – restatement – Workers' Compensation Self-Insurance Fund). As a result of the change, the Workers' Compensation Self-Insurance Fund reports a negative balance in its net assets. Starting with the 2005-06 fiscal year, the District will incorporate a repayment plan in its budget development to address the negative fund balance in the Workers' Compensation Self-Insurance Fund. Contribution amounts charged to the various funds will be established to generate an excess over expected current payments, and the excess will be applied to reduce the fund deficit. Such excess is expected to be approximately $20 million for the 2005-06 fiscal year, increasing to $40 million in 2006-07 and later years, depending upon State and District budget status. This plan will eliminate the current $174.5 million negative fund balance in approximately 5 years.

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

Fiduciary Funds – The District has the following Fiduciary Funds:

Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, post employment 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, 2004 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 United Teachers of Los Angeles (UTLA) represented employees.

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

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

In accordance with the District's Board policy, management has the authority to make routine transfers of budget appropriations between 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 cannot legally exceed appropriations by major object level as follows: Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenditures, Capital Outlay, Debt Service, Operating Transfers Out and Other Financing Uses. During the year, the Workers' Compensation Self-Insurance Fund was overspent by $43.0 million as a result of requirement to recognize estimated claims liabilities at the full present value of claims. These over expenditures were not fully appropriated in the District's fiscal year 2004 budget because it was adopted prior to such determination, but will be appropriated in future budgets.

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

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

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

All District-directed investments are made in compliance with Government Code 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held in custody by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. Included in the investments reported are notes transferred to the General Fund pursuant to State Education Code, Section 23807, upon merger of the District Retirement System into the State Teachers' Retirement System as of June 30, 1972. All the District's investments are stated at fair value based on quoted market prices.

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

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

10) Capital Assets – Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress are reported in the applicable governmental activities in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation in which case they are recorded at estimated market value at the date of receipt. The District maintains a capitalization threshold of $15,000.

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

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

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

11) Contracts Payable – Contracts payable includes only the portion applicable to work completed and unpaid as of June 30, 2004. All significant incomplete portions of contracts are reported as reserved fund balance.

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

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

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

13) Long-term obligations – Long-term debt and other long-term obligations including any related premiums/discounts on debt issuances are reported as liabilities in the applicable governmental activities in the government-wide financial statements. In the fund financial statements, the face amount of the 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 services and other operating expenditures.

14) Revenue Limit Sources – The revenue limit is the basic financial support for District activities. There are two sources of revenue limit income: local property taxes ($1,195.4 million) and State aid ($2,241.4 million).

15) Property Taxes – All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100% of full cash or market value (with limited exceptions) pursuant to Article XIIIA of the California State Constitution and statutory provisions. The total 2003-2004 taxable net total assessed valuation of the District is $308,528,780,081. The District's revenue from unrestricted property taxes is included in "Revenue Limit Sources". The property tax levy to support general operations of the various jurisdictions is limited to one percent (1%) of assessed value and is distributed in accordance with statutory formulas. Amounts needed to finance the annual requirements of voter-approved debt are excluded from this

limitation and are separately calculated and levied each fiscal year. The rates are formally adopted by either the County Board of Supervisors or the city council, or in some cases, the governing board of a special district.

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

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

The District's share of uncollected property taxes as of June 30, 2004 amounted to $137,574,804 of which $86,252,117 is for 2002-2003 and prior fiscal years.

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

17) Reclassifications – Certain reclassifications have been made to amounts previously reported to conform with the current year presentation. Such reclassifications had no effect on previously reported net assets.

NOTE B – RESTATEMENT – WORKERS' COMPENSATION SELF INSURANCE FUND

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 of claims for the Workers' Compensation Self-Insurance Fund. The District did, however, properly accrue the estimated claims liability in the government-wide financial statements. 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 financial statements. As a result of the change, the net assets of the Workers' Compensation Self-Insurance Fund as of June 30, 2003 have been restated as follows (in thousands):

Net assets as of June 30, 2003, as previously reported	$ 1,613
Underfunded liability at June 30, 2003	(132,769)
Net assets at June 30, 2003, as restated	$(131,156)

NOTE C – RESTATEMEMT - CHANGE IN REPORTING ENTITY

In September 2003, the California Department of Education's (CDE) revised regulations for charter school reporting were approved by the State Board of Education. Subsequently, the Office of Administrative Law approved the regulations in November 2003 and they were published in sections 15060, 15070 and 15071 of Title 5 (Education) of the California Code of Regulations (CCR). Given the changes in the State's charter school reporting requirements, the District re-evaluated its reporting of fiscally independent charter schools during the year ended June 30, 2004. Based on the guidance received from the CDE and on generally accepted accounting principles, the District removed the fiscally independent charter schools from its reporting entity effective July 1, 2003. As a result, the beginning government-wide net assets and the beginning governmental fund balances as of June 30, 2003 have been restated as follows (in thousands):

	Government-wide net assets	Governmental fund balances
Balance at June 30, 2003, as previously reported	$3,870,777	$4,426,499
Balance of charter schools at June 30, 2003	(69,392)	(36,363)
Balance at June 30, 2003, as restated	$3,801,385	$4,390,136

NOTE D - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2003, the District issued $670.0 million of 2003-2004 Tax and Revenue Anticipation Notes (TRANs) at a net premium of $6,356,766 to yield approximately 2.00% on $520.0 million Series A and 1.50% on $150.0 million Series B. These notes were retired on their due date of July 1, 2004.

On September 1, 2004, the District issued a total of $500.0 million of 2004-2005 TRANs at a net premium of $11,212,713 to yield approximately 1.498% on $158.0 million Series A-1, 1.505% on $292.0 million Series A-2 and 1.495% on $50.0 million Series A-3. The principal and interest on the notes are payable at maturity on September 1, 2005. As security for the payment of principal of 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: $175.0 million in the month ending January 31, 2005; $175.0 million in the month ending March 31, 2005; $150.0 million in the month ending May 31, 2005; plus an amount sufficient to pay interest on the notes and any deficiency in the amount required to be transferred during any prior month, in the month ending June 30, 2005.

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

1) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The accompanying governmental fund balance sheet includes reconciliation between *total fund balances – governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds." The details of the $5,183,108 difference are as follows (in thousands):

Bonds payable	$4,328,210
Certificates of participation (COPs)	758,183
State school building fund aid payable	1,522
Capital leases payable	13,471
Children center facilities revolving loan	792
Children center loan not yet collected	518
Accrued interest payable	6,857
Compensated absences	73,555
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$5,183,108

2) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that "Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $701,456 difference are as follows (in thousands):

Capital outlay	$1,003,568
Depreciation expense and loss on disposal	(302,112)
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ 701,456

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 $114,248 difference are as follows (in thousands):

General obligation bonds	$ 36,280
Certificates of participation	71,089
Capital leases	6,434
State school building aid fund payable	445
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ 114,248

NOTE F - BUDGETARY APPROPRIATION AMENDMENTS

It was not necessary to amend the budget appropriations during the fiscal year for the following funds: Cafeteria, Tax Override, Building – Bond Proceeds, Building – Measure K, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Capital Facilities, County School Facilities – Prop 47, Health and Welfare, and Attendance Incentive Reserve.

During the fiscal year, modifications were necessary on expenditure appropriations for the following funds: County School Facilities ($333 million), Capital Services ($20.6 million), Special Reserve ($13.0 million), Bond Interest and Redemption ($10.4 million), Building ($7.9 million), Annuity Reserve ($7.7 million), Special Reserve – Community Redevelopment Agency ($3.3 million), Liability Self-Insurance ($2.5 million), Workers' Compensation ($2.3 million), State School Building – Lease Purchase ($0.1 million), Deferred Maintenance (-$7.0 million), Adult Education (-$12.8 million), Child Development (-$23.8 million), and General (-$140.2 million).

NOTE G - DEPOSITS AND INVESTMENTS (in thousands)

Deposits – In the government-wide financial statements, "Cash and Cash Equivalents" of $3,490,108 consists of cash held by fiscal agents or trustees of $312,732, the carrying values of deposits with the County Treasury of $3,168,363, deposits with various financial institutions of $569, imprest funds in schools and offices of $8,375, and cafeteria change funds of $69. The carrying value of deposits with the County Treasury for the pension trust funds is $18,224 and deposits with various financial institutions for agency fund is $23,054.

In accordance with Education Code 41001, the District maintains substantially all of its cash in the County Treasury. The County pools these funds with those of other entities in the County and invests the cash. Interest is recorded when earned and is deposited periodically into participating funds. Investment losses, if any, are proportionately shared by all funds in the pool.

The District's aggregate total bank balance of deposits with the various banking institutions at June 30, 2004 is $11,589. Of this balance, $552 is covered by federal depository insurance. The uninsured deposits ($11,037) are with financial institutions which are legally required to have government deposits collateralized at the rate of 110% of the deposits, but do not have the collateral held specifically in the District's name.

Investments - The District's investments are categorized as either (1) insured or registered, or securities held by the District or its agent in the District's name, or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name. As of June 30, 2004, the District's investments (in thousands) include:

	Category		Fair	Historical
	1	2	Value	Cost
General Fund Investments:				
Securities of U.S. Government, its agencies and instrumentalities	$ 682,650	$ -	$ 682,650	$ 682,650
Debt Service Funds Investments:				
Securities of U.S. Government, its agencies and instrumentalities	34,685	-	34,685	34,763
Capital Projects Funds Investments:				
Securities of U.S. Government, its agencies and instrumentalities	900,904	-	900,904	900,904
Total government-wide investments	$1,618,239	$ -	$1,618,239	$1,618,317
Pension Trust Funds Investments:				
Short-term investments	$ 608	$ -	$ 608	$ 608

The Annuity Reserve Fund's net gain on sale of securities amounted to $1,059,000 for the fiscal year. The decrease in aggregate current value of investments was $544.

NOTE H – RECEIVABLES/PAYABLES

Receivables by Fund at June 30, 2004 consist of the following (in thousands):

	General	Building - Measure K	Other Governmental	Internal Service Funds	Total
Taxes	$ 121,388	$ -	$ 16,187	$ -	$ 137,575
Accrued state revenues	333,845	-	15,155	-	349,000
Accrued federal revenues	30,102	-	36,243	-	66,345
Specially funded grants	127,351	-	11,299	-	138,650
Other	18,241	-	40,422	1,930	60,593
Interest and dividend	3,845	2,277	3,384	1,313	10,819
Total receivables	$ 634,772	$ 2,277	$ 122,690	$ 3,243	$ 762,982

Payables by Fund at June 30, 2004 consist of the following (in thousands):

	General	Building - Measure K	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	$ 270,220	$ 38,329	$ 54,426	$ 27,033	$ 390,008
Contracts	762	44,706	77,757	-	123,225
Accrued payroll	215,728	1,014	16,539	1,036	234,317
Other	96,788	-	35,702	8,072	140,562
Total payables	$ 583,498	$ 84,049	$ 184,424	$ 36,141	$ 888,112

NOTE I - CAPITAL ASSETS

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

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Sites	$ 1,092,554	$ 139,503	$ (181)	$ 1,231,876
Construction in Progress	1,519,076	787,402	(126,461)	2,180,017
Total capital assets, not being depreciated	2,611,630	926,905	(126,642)	3,411,893
Capital assets, being depreciated:				
Improvement of Sites	266,274	3,606	-	269,880
Buildings and Improvements	2,628,658	167,082	-	2,795,740
Equipment	1,088,449	32,436	(24,980)	1,095,905
Total capital assets, being depreciated	3,983,381	203,124	(24,980)	4,161,525
Less accumulated depreciation for:				
Improvement of Sites	(226,098)	(356)	-	(226,454)
Buildings and Improvements	(1,088,907)	(285,125)	-	(1,374,032)
Equipment	(608,881)	(16,599)	24,948	(600,532)
Total accumulated depreciation	(1,923,886)	(302,080)	24,948	(2,201,018)
Total capital assets, being depreciated, net	2,059,495	(98,956)	(32)	1,960,507
Governmental activities capital assets, net	$ 4,671,125	$ 827,949	$(126,674)	$ 5,372,400

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction	$ 5,464
Support services – students	134
Support services – instructional staff	5,552
Support services – general administration	277
Support services – school administration	3,909
Support services – business	4,626
Operation and maintenance of plant services	5,505
Student transportation services	4,365
Data processing services	170,110
Operation of non-instructional services	982
Depreciation - unallocated	101,156
Total depreciation expense – governmental activities	$ 302,080

NOTE J - RETIREMENT PLANS

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

1) California Public Employees' Retirement System (CalPERS) - The District contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Active plan members are required to contribute 7.0% (miscellaneous) or 9.0% (safety) of their salary (7.0% or 9.0% of 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 2003-2004 were 10.420% for miscellaneous and 27.535% for safety members. The District paid the employee's contribution of 9.0% for safety members and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2004, 2003 and 2002.

Schedule of Employer Contributions:

	2004		2003	2002
	Safety	Miscellaneous	Safety and Miscellaneous	Safety and Miscellaneous
District Contributions:				
Regular	$ 4,812,897	$ 97,787,999	$ 30,403,652	$ 3,999,110
Annual Savings Recapture- AB 702 Credits	(2,530,406)	14,642,522	61,531,023	78,923,373
Total District Contributions	2,282,491	112,430,521	91,934,675	82,922,483
Employee Contributions:				
Paid by Employees	255,999	47,063,253	46,982,226	47,022,529
Paid by District	1,315,287	18,300,025	19,129,321	17,965,697
Total Employee Contributions	1,571,286	65,363,278	66,111,547	64,988,226
Total CalPERS Contributions	$ 3,853,777	$177,793,799	$158,046,222	$147,910,709
Percentage of Required Contributions Made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2004, 2003 and 2002 were in accordance with the required contributions rates calculated by the CalPERS actuary for each year.

The latest CalPERS actuarial valuation provides the following information:

Valuation Date:	June 30, 2002*
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]:	8.25%
Projected Salary Increases:	Varies, Based on Duration of Service
Post Retirement Benefits Increase:	State 2% or 3% Depending on System

* 2003 and 2004 information was not available

[1] Includes inflation at 3.5%

Schedule of Funding Progress – unaudited (in millions):

Actuarial Valuation Date	6/30/02	6/30/01	6/30/00
Actuarial Value of Assets	$ 156,067	$ 166,860	$ 162,439
Less: Actuarial Accrued Liability (AAL) Entry Age	163,961	149,155	135,970
Unfunded AAL (UAAL)	7,894	(17,705)	(26,469)
Funded Ratios	95.19%	111.87%	119.47%
Annual Covered Payroll	32,873	30,802	28,098
UAAL as a % of Covered Payroll	24.01%	-57.48%	-94.20%

2) California State Teachers' Retirement System (STRS) - The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et. seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2003, there were approximately 1,200 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

The Plan provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Individual funding progress information for the District is not available. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Active plan members are required to contribute 8.0% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-04 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, 2004, 2003 and 2002 are as follows:

	% of Applicable Member Earnings	2004	2003	2002
District Contributions	8.25%	$241,241,462	$236,960,989	$205,895,931
Employee Contributions (Including Adjustments)	8.00%	231,916,278	229,478,875	199,675,677
Total STRS Contributions	16.25%	$473,157,740	$466,439,864	$405,571,608

The District's contributions to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were equal to the required contributions at statutory rates.

The State's contribution to the system for fiscal year 2004 is 2.017% of the previous calendar year's teacher payroll. Subsequent to achieving a fully funded System, the State will contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs.

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

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

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

District employees covered under PARS number 45,018 as of June 30, 2004. District's contributions to the plan for the last three fiscal years are as follows: 2003-2004 - $7,117,416, 2002-2003 - $7,410,657, and 2001-2002 - $8,425,547.

The District's contributions for the fiscal years ended June 30, 2004, 2003 and 2002 were equal to the required contributions.

4) Health and Welfare Benefits for Retirees - In addition to the pension benefits described in this Note, the District provides post employment health care benefits, in accordance with collective bargaining unit agreements. 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. Approximately 32,000 retirees now meet these eligibility requirements.

   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, 2004 amounted to $183,033,388.

   In connection with GASB 45, the District engaged the services of an independent actuarial firm to estimate the accounting cost and liabilities of other post employment benefits (OPEBs) 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 in that level thereafter. Based on the actuarial study as of July 1, 2004, the best estimate for the Actuarial

Accrued Liability (AAL) of the District's postretirement health and welfare benefits program, which is substantially unfunded and not recorded in the accompanying basic financial statements at June 30, 2004, is as follows (in thousands):

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

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

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

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

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

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

NOTE K - RISK MANAGEMENT

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

Excess insurance has been purchased for fire loss damages, which currently provides $750 million coverage above a $0.5 million self-insurance retention, and for general liability, which currently provides $35 million coverage above a $3 million self-insurance retention. The General Fund resources are used to pay for fire loss insurance and repairs for fire damage. No settlements exceeded insurance coverage in the last three (3) fiscal years ended June 30, 2004.

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, owners provide general liability and workers' compensation insurance coverage to construction contractors. Because contractors remove insurance costs from their bids, savings accrue to the owner. Under the District's program, workers' compensation coverage with statutory limits, and primary and excess liability coverage with limits of $102 million have been underwritten by three major insurance carriers. Savings to the District over the life of the construction program are estimated to be approximately $30 million.

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

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, 2004, the amount of the total claims liabilities recorded for medical, dental, liability and workers' compensation was $568.7 million. During the fiscal year, the District recorded workers' compensation claims liability that reflected improved benefit levels and an accelerated rate of claims closure. Changes in the reported liabilities since July 1, 2002 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates*	Claim Payments	End of Fiscal Year Liability
2003-2004				
Health and Welfare Benefits	$ 30,660,133	$233,598,334	$(228,372,918)	$ 35,885,549
Workers' Compensation	429,262,180**	204,222,201	(123,678,692)	509,805,689
Liability Self-Insurance	20,760,813	11,497,692	(9,217,225)	23,041,280
TOTAL	$480,683,126	$449,318,227	$(361,268,835)	$568,732,518
2002-2003				
Health and Welfare Benefits	$ 25,367,719	$199,425,793	$(194,133,379)	$ 30,660,133
Workers' Compensation	377,396,935**	161,522,512	(109,657,267)	429,262,180
Liability Self-Insurance	20,456,452	9,411,657	(9,107,296)	20,760,813
TOTAL	$423,221,106	$370,359,962	$(312,897,942)	$480,683,126

* A discount rate of 5% was used for both Workers' Compensation and Liability Self-Insurance Funds.

** Amount was restated to include previously underfunded liability of $132,769,410 (see Note B – restatement – Workers' Compensation Self-Insurance Fund).

NOTE L - CERTIFICATES OF PARTICIPATION, LONG-TERM CAPITAL LEASES, AND OPERATING LEASES

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

CERTIFICATES OF PARTICIPATION

Description	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2024	2025-2029	2030-2034	Total	Less: Interest	Future Minimum Lease Payment
1996 COPs King/Drew ELA Portables	$ 4,796	$ 4,791	$ 4,787	$ 4,783	$ 4,779	$ 23,799	$ 14,212	$ -	$ -	$ -	$ 61,947	$ 16,934	$ 45,013
1997 COPs Belmont Learning Complex*	6,908	6,836	6,858	6,871	6,875	33,689	26,681	-	-	-	94,718	23,560	71,158
1998 Refunding of 1993 Ref. COPs	5,439	5,435	5,432	5,420	5,413	27,025	-	-	-	-	54,164	11,057	43,107
2000A COPs QZABs	-	-	-	-	-	30,447	-	-	-	-	30,447	-	30,447
2000B COPs Multiple Properties Project	29,481	29,456	25,885	25,851	1,133	2,258	-	-	-	-	114,064	9,135	104,929
2001A COPs Land Acquisition I	507	507	507	1,947	1,947	9,498	-	-	-	-	14,913	3,531	11,382
2001B COPs Beaudry	3,444	3,445	3,444	3,445	3,444	17,223	17,222	17,223	52,174	31,459	152,523	82,777	69,746
2001C COPs Beaudry	3,903	3,903	6,912	6,914	6,900	34,440	34,283	34,060	203	-	131,518	47,038	84,480
2001D COPs Land Acquisition II	2,470	2,535	2,493	2,449	2,495	12,450	12,546	7,536	-	-	44,974	15,074	29,900
2002A COPs Bravo Refunding	3,744	3,745	3,743	3,749	-	-	-	-	-	-	14,981	1,634	13,347
2002B COPs Multiple Properties Project	19,933	19,978	19,873	19,839	12,041	38,844	4,903	3,899	-	-	139,310	21,403	117,907
2002C COPs Admin Bldg Project II	607	603	604	604	602	3,020	3,007	2,998	2,979	1,782	16,806	7,363	9,443
2003A COPs Multiple Properties Project	14,382	14,714	14,639	14,629	14,608	41,411	3,400	3,380	951	-	122,114	20,186	101,928
2003B COPs Capital Project I	2,031	2,161	2,163	2,161	2,163	10,779	10,716	10,670	10,615	-	53,459	21,286	32,173
TOTAL	$97,645	$98,109	$97,340	$98,662	$62,400	$284,883	$126,970	$79,766	$66,922	$33,241	$1,045,938	$280,978	$764,960

*Variable Rate COPs: Amounts include interest at a projected average rate of 4.35%.

On October 16, 1996, the District issued COPs Series A and Series B in the amount of $58,950,000 and $35,420,000, respectively. The interest is due semi-annually and has ranged from 3.80% to 5.50%. Principal payments will be due annually through the year 2016. The proceeds from the issuance were used for the construction of the King/Drew Medical Magnet High School, the parking lot at the East Los Angeles Skills Center, and the acquisition of relocatable classrooms.

On December 9, 1997, the District issued the Variable Rate COPs Series A in the amount of $91,400,000. Interest is paid monthly and has ranged from 1.00% to 5.85% with a realized average rate of 2.9% from December 9, 1997, through June 30, 2002. Principal payments will be due annually through the year 2017. The proceeds from the issuance were used for the construction of the Belmont Learning Complex.

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

On September 12, 2000, the District issued the COPs Series 2000B (Multiple Properties Project) in the amount of $172,715,000. Interest is paid semi-annually and has a yield of 4.16%. Principal payments will be due annually through the year 2010. The proceeds from the issuance are being used to pay for Internet connectivity, portable classrooms, air conditioning projects, sports facility improvements and construction at adult schools.

On April 10, 2001, the District issued the COPs Series 2001A (Land Acquisition Program I) in the amount of $35,000,000. Interest is paid semi-annually and will range from 3.30% to 5.25%. Principal payments will be due annually through the year 2021. The proceeds from issuance were used to pay for new school sites and additions to school sites.

On October 31, 2001, the District issued the COPs Series 2001C (Administration Building Project) in the amount of $84,480,000. Interest is paid quarterly and is set at 4.62%. Principal payments will be due annually beginning in the year 2006 through the year 2024. The proceeds from the issuance were used to pay for the District's new administration building.

On November 6, 2001, the District issued the COPs Series 2001B (Administration Building Project-Tenant Improvements) in the amount of $68,890,000. Interest is paid semi-annually and is set at 5.00%. Principal payments will be due annually beginning in the year 2024 through the year 2031. The proceeds from the issuance are being used to pay for improvements at the District's new administration building.

On December 10, 2001, the District issued the Variable-Rate COPs Series 2001D (Land Acquisition Program II) in the amount of $32,000,000. Interest is paid monthly with rates to be determined weekly. Principal payments will be due annually through the year 2021. The proceeds from the issuance were used to pay for various costs associated with the acquisition of the Ambassador site.

On March 6, 2002, the District issued the Refunding COPs Series 2002A (Dr. Francisco Bravo Medical Magnet Senior High School Project) in the amount of $21,655,000. Interest is paid semi-annually at 5.00%. Principal payments will be due annually through the year 2008. The proceeds from the issuance were used to refund the 1991 Bravo Refunding COPs.

On December 4, 2002, the District issued the COPs Series 2002B (Multiple Properties Project) in the amount of $128,765,000. Interest is paid semi-annually and will range from 2.00% to 5.00%. Principal payments will be due semi-annually through the year 2022. The proceeds from the issuance are being used to finance the following projects: auditorium and gymnasium air conditioning, computer and telephone equipment, school furniture and equipment, FEMA hazard mitigation, children centers, relocatable classrooms, school police vehicles, gymnasium improvements, sports facilities, parking facilities for gardening vehicles, and elementary and museum school projects.

On December 5, 2002, the District issued the COPs Series 2002C (Administration Building Project II) in the amount of $9,490,000. Interest is paid semi-annually and will range from 2.00% to 5.00%. Principal payments will be due annually through the year 2031. The proceeds are being used for tenant improvements and HVAC upgrades for the 12th floor and also painting and lighting upgrades on the garage of the Administration Building.

On June 11, 2003, the District issued the COPs Series 2003A (Multiple Properties Project) in the amount of $100,215,000. Of this amount, $88,300,000 are being used to fund the first three years of expenditures related to the design, development, acquisition and installation of the Integrated Student Information System and the Enterprise Resource Planning (ERP) for financial/procurement and human resources enterprise. The proceeds from the issuance are also being 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 parking facility for a vocational training center in local District 6. Interest is paid semi-annually and will range from 2% to 5%. Principal payments will be due annually through the year 2028.

On June 11, 2003, the District issued the COPs Series 2003B (Capital Project I) in the amount of $31,620,000. Interest is paid semi-annually and will range from 2.00% to 5.00%. Principal payments will be due annually through the year 2028. The proceeds from the issuance were used to purchase and equip a turnkey warehouse in the City of Pico Rivera.

No COPs were issued by the District in the current fiscal year. However, in July 2004, the District issued $57.625 million 2004A and B Certificates of Participation for Refinancing Project I and Refunding Project I.

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 M – long-term obligations.

The District's operating leases consist of various leased facilities and office equipment (primarily copiers). The leased facilities have varying terms ranging from less than a year to 49 years. Some leases are month to month and a few are year to year. The leases expire over the next 15 years. Certain leases contain rent adjustment and renewal option provisions.

The equipments (primarily copiers) are 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 $24,692,632 in 2003-2004. The future minimum commitments for noncancellable operating lease of the District as of June 30, 2004 are as follows (in thousands):

Fiscal Year Ending	Amount
2005	$ 20,485
2006	13,394
2007	11,460
2008	10,104
2009	9,700
2010-2014	32,987
2015-2019	12,542
	$110,672

NOTE M - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2004 (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	Self-Insurance Claims	Total
Balances at July 1, 2003	$4,364,490	$ 1,967	$ 77,542	$ 846,767	$ 792	$ 480,683	$ 5,772,241
Additions in 2003-2004	-	80	72,780	14,407	-	449,318	536,585
Deductions in 2003-2004	(36,280)	(445)	(73,009)	(82,743)	-	(361,269)	(553,746)
Balances at June 30, 2004	$4,328,210	$ 1,602	$ 77,313	$ 778,431	$ 792	$ 568,732	$ 5,755,080
Due within one year	$ 46,695	$ 444	$ 3,498	$ 77,949	$ -	$ 182,605	$ 311,191
Interest Expense in 2003-2004	$ 194,773	$ 80	$ -	$ 31,964	$ -	$ -	$ 226,817

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

Year Ending June 30	General Obligation Bonds		State School Building Aid Fund Payable		Capital Lease Obligations/ Certificates of Participation		Children Center Facilities Revolving Loan	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2005	$ 46,695	$ 216,374	$ 364	$ 80	$ 77,949	$ 25,594	$ -	$ 125,008	$ 242,048
2006	67,800	214,101	322	61	72,996	29,787	79	141,197	243,949
2007	74,600	211,489	275	44	73,751	26,645	79	148,705	238,178
2008	81,995	208,456	290	30	77,280	23,105	79	159,644	231,591
2009	90,115	204,924	351	14	42,957	18,961	79	133,502	223,899
2010-2014	595,180	954,424	-	-	212,343	72,864	476	807,999	1,027,288
2015-2019	937,935	768,962	-	-	84,715	42,717	-	1,022,650	811,679
2020-2024	1,479,950	495,625	-	-	53,175	27,002	-	1,533,125	522,627
2025-2029	953,940	120,641	-	-	52,390	14,532	-	1,006,330	135,173
2030-2032	-	-	-	-	30,875	2,366	-	30,875	2,366
	$4,328,210	$3,394,996	$1,602	$229	$778,431	$283,573	$ 792	$5,109,035	$3,678,798

The General Obligation Bonds balance of $4,328,210,000 consists of six issuances of Proposition BB bonds and one issue of Measure K bonds: Series "A" bonds, sold in July 1997 at $356.0 million par value; Series "B" bonds, sold in August 1998 at $350.0 million par value, of which $90.9 million were refunded on April 17, 2002 prior to maturity; Series "C" bonds, sold in August 1999 at $300.0 million par value, of which $70.8 million were refunded on April 17, 2002; Series "D" bonds, sold in August 2000 at $386.7 million par value, of which $101.0 million were refunded on April 17, 2002; Series "E" bonds, sold in April 2002 at $500.0 million par value; and Series "F" bonds, sold in March 2003 at $507.3 million par value; and one issuance of Measure K bonds: Series "A" bonds, sold in February 2003 at $2.1 billion par value.

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 another strong margin of victory, authorized the District to issue general obligation bonds in an amount not to exceed $3.87 billion, the first 4 series of which were issued in September 2004 at an aggregate principal amount of $200.0 million. The Board of Supervisors of the County of Los Angeles is empowered and obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County and used solely for the payment of the bonds and interest thereon when due.

The State School Building Aid Fund Payable balance of $1.6 million at June 30, 2004 represents loans under the State Education Code Section 16310 for the replacement or rehabilitation of pre-1933 buildings. These loans are repaid with interest at varying rates, as specified by the State Allocation Board at the time of approval of each project application, from annual tax collections received by the Tax Override Fund. Principal and interest are to be paid in 20 equal annual amounts, not to exceed the amount that would be produced by a property tax levy of 4.375 cents per $100 of assessed value. It is anticipated that these loans will be paid off during the 2008-2009 fiscal year.

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

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 10 years. Annual repayment will begin when the full amount of the loan is received.

The District's policy relating to accumulated vacation leave is described in Note A. The liability for earned vacation benefits at June 30, 2004 for all funds amounted to $77.3 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.

NOTE N - INTERFUND TRANSACTIONS

1) Interfund Receivables/Payables (Due To/From Other Funds) – Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. The following is a summary of interfund receivables and payables at June 30, 2004 (in thousands):

Funds:	Purpose	Interfund Receivables	Interfund Payables
General:	Unrestricted	$ 569,970	$ 428,483
	Restricted	358,382	491,073
	Total General	928,352	919,556
Special Revenue:	Adult Education	2,312	8,008
	Cafeteria	2,372	29,259
	Child Development	1,296	8,155
	Deferred Maintenance	44	1,424
	Total Special Revenue	6,024	46,846
Debt Service:	Capital Services	6,933	4,837
Capital Projects:	Building	151	651
	Building – Bond Proceeds	7,256	5,334
	Building – Measure K	25,623	33,457
	State School Building Lease-Purchase	46	20
	Special Reserve	9,934	24,247
	Special Reserve – FEMA-Earthquake	3,889	93
	Special Reserve – FEMA-Hazard Mitigation	1,202	59
	Special Reserve – CRA	926	-
	Capital Facilities Account	137	12,138
	County School Facilities	63,620	321
	County School Facilities – Prop 47	45	44,267
	Total Capital Projects	112,829	120,587
Internal Service:	Health and Welfare Benefits	10,962	215
	Workers' Compensation Self-Insurance	17,619	4,675
	Liability Self-Insurance	15,605	1,566
	Total Internal Service	44,186	6,456
Pension Trust:	Annuity Reserve	-	41
	Attendance Incentive Reserve	9	10
	Total Pension Trust	9	51
	Total Interfund Receivables/Payables	$ 1,098,333	$ 1,098,333

2) Interfund Transfers - Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2004, were as follows (in thousands):

From	To	Purpose	
General	Child Development	Support to Child Development	$ 8,412
General	Special Reserve	California Science Center	11,522
General	Special Reserve	Asbestos Settlement	1,448
General	Special Reserve – CRA	Community Redevelopment	3,757
General	Special Reserve – FEMA-Earthquake	Federal Aid	3,806
General	Special Reserve – Hazard Mitigation	Federal Aid	23,605
General	Special Reserve – Hazard Mitigation	Energy Savings	2,076
General	Deferred Maintenance	District Match Requirement	8,140
General	Capital Services	Debt Service	51,430
Child Development	General	Routine Repair & Maintenance	1,980
SR-FEMA-Earthquake	General	Reimbursement of Operating Expenses	628
Annuity Reserve	General	Reimbursement of Operating Expenses	147
Adult Education	General	Routine Repair & Maintenance	2,583
Cafeteria	General	Flexibility Transfer	2,642
Attendance Incentive	General	Reimbursement of Operating Expenses	67
SR-Hazard Mitigation	General	Reimbursement of Operating Expenses	298
Capital Facilities	State School Building – Lease Purchase	District Match Requirement	5,714
Capital Facilities	Capital Services	Debt Service	23,260
Special Reserve	Capital Services	Debt Service	20,633
Sub-total			172,148
Adult Education	General	Transfer of support costs	5,667
Total			$177,815

NOTE O - FUND EQUITY

1) Governmental Fund Types

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2004 (in thousands):

	General Fund	Building Fund - Measure K	Other Governmental Funds
RESERVED FOR			
Revolving and Imprest Funds	$ 2,603	$ -	$ 3,272
Inventories	16,209	-	8,438
Debt Service	-	-	205,819
Prepaid Expenditures	107	-	9,687
General Reserve	1	-	-
Certificates of Participation	5,884	-	-
Class Size Reduction-Facilities	3,401	-	-
Gifted and Talented Education	1,482	-	-
Medi-Cal Billing Options	11,788	-	-
Principal Training	1,794	-	-
CA Peer Assistance & Review Program for Teachers	1,288	-	-
School Safety and Violence Prevention	2,461	-	-
Routine Repair & General Maintenance	13,402	-	-
Cal-Safe Supportive Services	567	-	-
Special Education Low Incidence	1,574	-	-
Outdoor Science Program	71	-	-
Tenth Grade Counseling	447	-	-
Cops More Program	35	-	-
Lottery – Proposition 20	3,573	-	-
Instructional Materials Block Grant	4,853	-	-
Staff Development Reading/Math	5,172	-	-
School Improvement & Pupil Achievement Block Grant	3,488	-	-
California Public School Library Act	6,987	-	-
Specially Funded Programs	84,029	-	-
TOTAL RESERVED FUND BALANCE	171,216	-	227,216
DESIGNATED FOR			
Subsequent Year Expenditures	89,729	1,676,001	1,374,513
Economic Uncertainties	31,669	-	-
TOTAL DESIGNATED FUND BALANCE	121,398	1,676,001	1,374,513
UNDESIGNATED FUND BALANCE	31,368	-	459
TOTAL FUND BALANCE	$ 323,982	$ 1,676,001	$ 1,602,188

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

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

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

2) Proprietary Fund and Fiduciary Fund Types:

The following is a summary of the net assets of proprietary (internal service) and fiduciary (pension trust) funds at June 30, 2004 (in thousands):

	Internal Service Funds	Pension Trust Funds
RESERVED NET ASSETS		
Revolving and Imprest Funds	$ 2,500	$ -
Prepaid Expenditures	15,165	-
Participants' Equity	-	625
TOTAL RESERVED NET ASSETS	17,665	625
DEFICIT	(165,993)	-
UNDESIGNATED NET ASSETS	10,000	-
TOTAL NET ASSETS (DEFICIT) - unrestricted	$ (138,328)	$ 625

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

NOTE P - CONTINGENCIES

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

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

3) BELMONT LEARNING COMPLEX - In 1997, the District commenced the development of the Belmont Learning Complex, a large-scale urban high school complex that was envisioned to include a mixed-use commercial component. In January 2000, due to environmental concerns, the District's Board of Education directed that construction on the Belmont Learning Complex be halted and the project cancelled. The Board also directed the staff to prepare recommendations for the future use of the site and the partially constructed facility, and a plan for the housing of the students who were scheduled to attend a completed Belmont facility. Subsequently, the Board requested and received proposals for the use of the property, including completion of the school. These proposals were evaluated by an independent panel of environmental, construction finance, and insurance experts, who together with the Superintendent identified the preferred bidder. The Board approved the recommendations made by the expert panel and the Superintendent subject to satisfactory negotiations and implementation of various oversight procedures. Due to the discovery of an earthquake fault zone under the site, the District decided on December 4, 2002 not to continue efforts to complete the Belmont Learning Complex on its original design. On May 22, 2003, the District approved the "Vista Hermosa" option to complete the Belmont Learning Complex. Construction will proceed to build a park and a new high school with 3,100 student seats in an extremely overcrowded area. Two buildings on top of the seismic fault will be demolished.

NOTE Q - PROPOSITION BB BONDS

Proposition BB, which was approved at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within Los Angeles Unified School District, authorized the District to issue general obligation bonds in an amount not to exceed $2.4 billion. The first issue known as Series "A" was sold in July 1997 at a par value of $356 million. The second issue known as Series "B" was sold in August 1998 at a par value of $350 million. The third issue known as Series "C" was sold in August 1999 at a par value of $300 million. A fourth issue known as Series "D" was sold in August 2000 at a par value of $386.7 million. A fifth issue known as Series "E" was sold in April 2002 at a par value of $500 million. A sixth issue known as Series "F" was sold in March 2003 at a par value of $507.345 million. Also, 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.

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

The Blue Ribbon Citizen's Oversight Committee consists of eleven members representing governmental entities, agencies and organizations. As of September 23, 2004, a total of 11,527 projects funded by BB Bonds have been completed or are in process, as follows: air conditioning, 632; State Matching Funds - new construction, 457; State Matching Funds - modernization construction, 218; portables - class size reduction, 503; portables - enrollment growth, 269; new schools/centers - class size reduction, 29; opening of closed schools - class size reduction, 6; safety and technology, 849; and miscellaneous small projects, 8,564.

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

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

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

On March 2, 2004, voters approved the $3.87 billion Measure R general obligation bond authorization. The bond proceeds will be used to repair and upgrade school facilities as well as create additional classroom seats. The District has established a separate fund, Measure R Building Fund, to account for the income and expenditures of the incoming bond proceeds. The District expects to issue the first series in the latter part of this year.

The Bonds represent a general obligation of the District; the Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to the 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, 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 the Bonds and interest thereon when due.

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 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 Security ("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. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. 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 Indenture 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 evidenced by 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.

Neither the District nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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, evidenced by 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 will serve and act in the manner described in this Official Statement. Neither the District nor the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

[Closing Date]

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

Re:

$346,750,000 Los Angeles Unified School District (County of Los Angeles) 2005 General Obligation Refunding Bonds Series A-1	$120,925,000 Los Angeles Unified School District (County of Los Angeles) 2005 General Obligation Refunding Bonds Series A-2

Members of the Board of Education:

We have acted as bond counsel to the Los Angeles Unified School District (the "District") in connection with the issuance of $346,750,000 Los Angeles Unified School District (County of Los Angeles) 2005 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds") and $120,925,000 Los Angeles Unified School District (County of Los Angeles) 2005 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and together with the Series A-1 Bonds, the "Bonds") as authorized by Title 5, Division 2, Part 1, Chapter 3, Article 9 and Article 11 of the California Government Code, a resolution adopted by the Board of Education of the District on June 14, 2005 (the "District Resolution").

In our capacity as bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents and certificates that we reviewed are genuine.

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

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

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

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

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

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

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Los Angeles Unified School District (the "District") and the Dissemination Agent (defined below) in connection with the issuance of $346,750,000 Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-1 (the "Series A-1 Bonds") and $120,925,000 Los Angeles Unified School District (County of Los Angeles, California) 2005 General Obligation Refunding Bonds, Series A-2 (the "Series A-2 Bonds" and collectively with the Series A-1 Bonds, the "Bonds"). The Bonds are being issued pursuant to a resolution (the "Resolution") adopted by the Board of Education of the District on June 14, 2005. 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 Underwriter" 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 2004-2005 Fiscal Year (which is due not later than February 25, 2006), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

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

(d) The Dissemination Agent shall:

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

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

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

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

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

To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- Adopted budget of the District for the current fiscal year.
- District average daily attendance.
- District outstanding debt.
- Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.
- Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1) principal and interest payment delinquencies.

2) non-payment related defaults.

3) modifications to rights of Holders.

4) optional, contingent or unscheduled bond calls.

5) defeasances.

6) rating changes.

7) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8) unscheduled draws on the debt service reserves reflecting financial difficulties.

9) unscheduled draws on the credit enhancements reflecting financial difficulties.

10) substitution of the credit or liquidity providers or their failure to perform.

11) release, substitution or sale of property securing repayment of the Bonds.

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

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable 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 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. 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 7. 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 8. 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; and

(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.

(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 the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 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 9. 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 10. 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 11. 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 12. 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: _____________, 2005

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: ____

Charles Burbridge
Chief Financial Officer

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By: ____

Dissemination Agent

CONTINUING DISCLOSURE 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 2005 General Obligation Refunding Bonds Series A-1 and Series A-2
Date of Issuance:	_____________, 2005

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 April 30, 2005, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	$7.763
Schools and Community Colleges	9.217
Independent Public Agencies	1.133
Total	$18.113

Of these entities, the involuntary participants accounted for approximately 93.75%, and all discretionary participants accounted for 6.25% of the total treasury pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 15, 2005, reaffirmed the following criteria and order of priority for selecting investments:

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

The Treasurer prepares a monthly Report of Investments (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors for formal action to approve it. According to the Investment Report dated May 23, 2005, the April 30, 2005 book value of the Treasury Pool was approximately $18.113 billion and the corresponding market value was approximately $18.068 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. They also review each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliation 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 April 30, 2005 approximately 56.73% of the pool investments mature within 60 days, with an average of 139.00 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Pool as of April 30, 2005.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	38.57%
Certificates of Deposit	20.16
Commercial Paper	35.10
Bankers Acceptances	0.00
Municipal Obligations	0.20
Corporate Notes & Deposit Notes	5.97
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.00

Effective January 1, 1996, Section 27131 of the Government Code requires all counties investing surplus funds to establish a County Treasury Oversight Committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five Committee members nominated by the Treasurer in accordance with that Section. The Committee, which meets quarterly, is required to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX G

SPECIMEN BOND INSURANCE POLICIES

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Exhibit A

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

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

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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LOS ANGELES UNIFIED SCHOOL DISTRICT • (COUNTY OF LOS ANGELES, CALIFORNIA) • 2005 GENERAL OBLIGATION REFUNDING BONDS • SERIES A-1 AND SERIES A-2

LOS ANGELES UNIFIED SCHOOL DISTRICT • BOARD OF EDUCATION •

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