



**Los Angeles Unified School District**  
Los Angeles, California

# Comprehensive Annual Financial Report



**Fiscal Year Ended  
June 30, 2006**

**LOS ANGELES UNIFIED SCHOOL DISTRICT  
LOS ANGELES, CALIFORNIA**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2006**

**MR. DAVID L. BREWER III**  
SUPERINTENDENT OF SCHOOLS  
(EFFECTIVE NOVEMBER 13, 2006)

**MR. ROY ROMER**  
SUPERINTENDENT OF SCHOOLS  
(RETIRED EFFECTIVE DECEMBER 15, 2006)

**MR. CHARLES A. BURBRIDGE**  
CHIEF FINANCIAL OFFICER

**MS. BETTY T. NG**  
CONTROLLER



**PREPARED BY  
ACCOUNTING AND DISBURSEMENTS DIVISION**

**333 S. BEAUDRY AVENUE  
LOS ANGELES, CALIFORNIA 90017**

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
 Comprehensive Annual Financial Report  
 Year ended June 30, 2006

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# INTRODUCTORY SECTION



# Los Angeles Unified School District

## Accounting and Disbursements Division

**DAVID L. BREWER III**  
Superintendent of Schools

**CHARLES A. BURBRIDGE**  
Chief Financial Officer

**BETTY T. NG**  
Controller

December 11, 2006

The Honorable Board of Education  
Los Angeles Unified School District  
333 South Beaudry Avenue  
Los Angeles, California 90017

Dear Board Members:

The Comprehensive Annual Financial Report of the Los Angeles Unified School District (District), for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included. The report also includes a "State and Federal Compliance Information" section, which is designed to meet the reporting requirements of the Office of the California State Controller, the U.S. General Accounting Office, the U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996.

This report is presented in five sections:

### **I. Introductory**

This section includes this transmittal letter, a list of members of the Board of Education and principal school district officials and a chart of the District's current organizational structure.

### **II. Financial**

This section includes the government-wide financial statements and individual Fund financial statements and schedules, as well as the Independent Auditors' Report from KPMG LLP. It also includes a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A provides an objective and easily readable analysis of the District's financial activities on both a short- and long-term basis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

### **III. Supplementary**

This section includes combining financial statements for nonmajor funds, schedules for capital assets and long-term obligations, and informational schedules for General Fund, Adult Education Fund and Child Development Fund.

### **IV. Statistical**

This section includes selected statistical tables and schedules, generally presented on a multi year basis, which reflect social and economic data, financial trends, and the fiscal capacity of the District.



## **V. State and Federal Compliance Information**

This section includes: the auditors' reports on issues of compliance with reporting requirements of the Office of the California State Controller, U.S. General Accounting Office, U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996; a schedule of average daily attendance; schedules of State and Federal financial grants and entitlements; a schedule of financial trends and analysis; and the auditors' reports on internal controls and their management improvement recommendations.

### **Profile of the Los Angeles Unified School District**

The District encompasses approximately 710 square miles in the western section of Los Angeles County. The District is located in 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 territories devoted to homes and industry. 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 currently operating 437 elementary schools, 74 middle/junior high schools, 61 senior high schools, 59 options schools, ten multi level schools, 17 special education schools, 22 magnet schools and 138 magnet centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, 100 early education centers, five infant centers, 27 primary school centers, and one newcomer school. The District is governed by a seven-member Board of Education elected by District to serve alternating four-year terms. As of June 30, 2006, the District employed 45,265 certificated, 32,669 classified, and 27,213 nonregular employees. Enrollment as of October 2006 was 673,500 students in K-12 schools, 145,768 students in adult schools and centers, and 11,052 children in early education centers.

As a reporting entity, the District is accountable for all activities related to public education in most of the western section of Los Angeles County. This report includes all funds of the District with the exception of the fiscally independent charter schools, which are required to submit their own individual audited financial statements, and the Auxiliary Services Trust Fund, which is not significant in relation to District operations. The Auxiliary Services Trust 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, grants restricted for student activities, and other miscellaneous activities.

### **Economic Condition and Outlook**

As the 2006-2007 school and fiscal year began, the State's economy was continuing its recovery from the economic recession of the early 2000s. The \$127.9 billion State Budget Act adopted by the state legislature on June 27 and signed by the Governor on June 29, 2006 reflects a sharply improving fiscal picture, brought about in part by stronger than expected growth in state General Fund revenues.

Public education will benefit from California's strong economy and from the out-of-court settlement of the *California Teachers' Association v. Schwarzenegger* lawsuit, adding \$3 billion in K-14 funding in 2006-2007, and additional moneys to be provided for low-performing schools in fiscal years 2007-2008 through 2013-2014. However, it must be noted that the majority of new 2006-2007 K-12 funding is provided in the form of one-time and categorical resources which allow local school boards limited or no discretion as to their usage. Major new programs are funded in such areas as physical education, arts and music instruction, and secondary school counseling, among other instructional areas. Overall, statewide funding of K-12 education is calculated to increase by 6.6% over 2005-2006 to \$8,288 per Average Daily Attendance (ADA) in the new fiscal year.

Discretionary funding is provided in the State Budget through the revenue limit cost of living adjustment (COLA), funded at the statutory 5.92%, as well as through the elimination of the revenue limit deficit factor and through partial revenue limit equalization.

Future funding of K-12 education remains a question as work on this document is being completed. The Legislative Analyst's Office has estimated that the state will face a deficit of \$4.5 to \$5 billion in 2007-2008 and 2008-2009, noting that the \$2.1 billion reserve anticipated at the conclusion of the 2006-2007 fiscal year could be utilized to offset a portion of the projected 2007-2008 shortfall. The Legislative Analyst's Office has repeatedly warned that the State's structural budget imbalance can lead to future year reductions in programmatic areas which rely on the state budget for funding. K-12 education is, of course, heavily dependent on state funding, and, perhaps as importantly, on relatively volatile state funding sources such as income and sales taxes.

The District's 2006-2007 budget is balanced, and the District can project balanced budgets in 2007-2008 and 2008-2009, given the best available information regarding revenue sources and expenditure requirements. However, many financial challenges remain, including the rising cost of employee health and medical expenses, the impact of declining enrollment, which results in income reductions exceeding cost savings, the need to negotiate employee compensation increases for 2006-2007, the need to provide textbooks in subject areas in which the state Board of Education has made recent adoptions, and the need to fully fund the long-term requirements of the Workers' Compensation Self-Insurance Fund. As part of its ongoing commitment to create a stable, sound long-term financial plan, the District continues to seek solutions in areas such as these.

### **Superintendent's Five-Year Strategic Plan: Improvement of Learning is the Fundamental Goal**

The Board of Education received the Superintendent's Five-Year Strategic Plan in May 2002. The plan is a collaborative effort among teachers, administrators, classified staff, parents, students in secondary schools, and community leaders.

The Five-Year Strategic Plan goals are as follows:

- Improved student reading and writing skills across all grade levels.
- Improved student skills and understanding in mathematics across all grade levels.
- Focused professional development as the key to improving classroom practice.
- Maximized delivery of additional classroom seats.
- Appropriate support for English language learners and standard English language learners.
- Enhanced delivery and effectiveness of Special Education Services.
- Enhanced recruitment and retention of qualified staff.
- Increased use of technology in the classroom and more effective use of technology for instructional support.
- Increased efficiency in the use of resources.
- Improved early childhood education as a foundation for success, particularly in reading and mathematics.
- Expanded magnet and academy opportunities in communities with few such programs.
- Expanded and enhanced after-school programs.

- Involved parents and community.
- School safety.
- Enhanced health and human services to address barriers to learning.
- Arts education.

### **Proposition BB Bonds**

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

The purpose of the issuance of the Bonds is to provide needed health and safety improvements to more than 800 deteriorating school buildings and 15,000 classrooms, including upgrading electrical wiring and plumbing; repairing decaying roofs and walls; earthquake retrofitting and asbestos removal; providing infrastructure for computer technology and science laboratories; providing air conditioning for classrooms; enhancing student safety with lighting, fences, and security systems; funding and/or providing matching funds for construction and additions at several schools and the building of 100 new schools to reduce class size and decrease busing. The Board of Education 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 Blue Ribbon Citizen’s Oversight 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 Blue Ribbon Citizen’s Oversight Committee is also responsible for the oversight of the District’s general obligation bonds issued pursuant to Proposition 39.

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

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

### **General Obligation Bonds – Proposition 39**

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

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

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

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

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

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

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

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

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

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

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

### **State School Facilities Bonds**

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

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

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

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

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

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

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

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

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

### **Financial Information**

The District maintains internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use and disposition and to provide reliable records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes the importance of a close evaluation of costs and benefits, which requires estimates and judgments by management. The objective is to secure efficient internal control, the cost of which must not exceed the benefits derived therefrom. We believe that the District's internal accounting control adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

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 Superintendent's Provisional Budget prior to the State-mandated July 1 deadline and a Superintendent's Final Budget no later than September 8.

Education Code Section (EC§) 42600 mandates that a school district's expenditures may not legally exceed budgeted appropriations by major object classification, namely certificated salaries, classified salaries, employee benefits, books and supplies, services and other operating expenditures, capital outlay, other outgo, and other financing uses. EC §42600 further specifies that districts may not spend more than the amounts authorized in the Final Budget as adjusted during the fiscal year.

The Workers' Compensation Self-Insurance Fund deficit resulted from the District's recognition of its claims liabilities at full present value in fiscal year 2003-2004. It is the District's intention that future claims will be fully funded over a 30-year period.

Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Unencumbered appropriations lapse at year end and encumbrances outstanding at that time are reported as reservations or designations of fund balance for subsequent year expenditures.

### **Cash Management**

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the District's cash is deposited in the county treasury. The District is limited by EC §41015 and Government Code Section 53601 to investments in: U.S., state, or local government securities or U.S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime quality." These guidelines are followed by the County Treasurer's Office in making pool and specific investments for the District. At June 30, 2006, the District's cash in the total county pool was \$3,024.9 million.

The District also maintains some cash deposits with various banking institutions. At June 30, 2006, cash deposits including imprest funds in schools and offices were \$33.8 million. These deposits are either covered by federal depository insurance or collateralized at the rate of 110% of the deposits.

The District also had \$130.9 million in cash deposit accounts held by various trustees for the acquisition or construction of fixed assets, for the repayment of long-term debt, and for the repayment of tax and revenue anticipation notes.

Income realized from all cash deposits in 2005-2006 was \$171.5 million for all funds.

### **Risk Management**

The District maintains various insurance programs, the majority of which are partially or entirely self-insured, while the smaller and/or specialized types of coverage are placed with commercial insurance carriers including excess property coverage (\$1 billion above a \$0.5 million self-insurance retention for 2005-2006) for loss due to fire.

The District is self-insured for its Workers' Compensation Program, and partially self-insured for the Liability Insurance, (excess coverage of \$45 million above a \$3 million self-insurance retention for 2005-2006) and Health and Welfare Insurance Programs. Separate funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

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. Individual reserves are continually monitored and reviewed, and as settlements are made, or reserves adjusted, differences are reflected in current operations. (See note 9 on pages 53 and 54 for a further discussion of Risk Management).

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

The District also has 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.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Los Angeles Unified School District for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the second consecutive year that the Los Angeles Unified School District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Independent Audit**

EC §41020 provides that each school district shall arrange for an audit by certified public accountants of its books and accounts, including the District's income by source of funds and expenditures by object and program. The District's contract auditor for 2005-2006 is KPMG LLP. The auditors' report on the financial statements is presented in the Financial Section of this report on page 1.

### **Office of the Inspector General**

In addition to the independent audit, the District has an Office of the Inspector General (OIG). The OIG reports directly to the Board of Education and is comprised of both auditors and investigators that are authorized to examine any and all functions within the District as well as those entities that do business with the District. The OIG is responsible for detecting and preventing waste, fraud, and abuse; recommending improvements to management controls; and increasing efficiency of operations.

## Acknowledgments

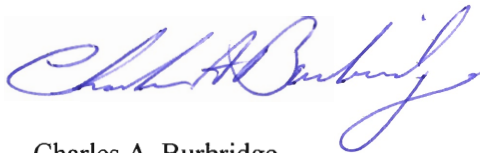
We wish to express our appreciation to the Division of Accounting and Disbursement team, the various District divisions who assisted in the preparation of this report, and acknowledge the effort of our independent auditors.

Respectfully submitted,  
David L. Brewer III  
Superintendent of Schools

Prepared by:



Betty T. Ng  
Controller



Charles A. Burbridge  
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Los Angeles  
Unified School District  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**BOARD OF EDUCATION**

**Marlene Canter**  
PRESIDENT

**Mónica García**  
(Effective June 2006)

**Julie Korenstein**

**Marguerite Poindexter LaMotte**

**Mike Lansing**

**Jon Lauritzen**

**David Tokofsky**

**Jose Huizar**  
(Resigned November 2005)

**PRINCIPAL SCHOOL DISTRICT OFFICIALS**

**David L. Brewer III**  
Superintendent of Schools  
(Effective November 13, 2006)

**Roy Romer**  
Superintendent of Schools  
(Retired effective December 15, 2006)

**Charles A. Burbridge**  
Chief Financial Officer

**Betty T. Ng**  
Controller

**LOCAL DISTRICT SUPERINTENDENTS**

June 30, 2006

**Richard Alonzo**

**Jean Brown**

**Martin Galindo**

**Sue Shannon**

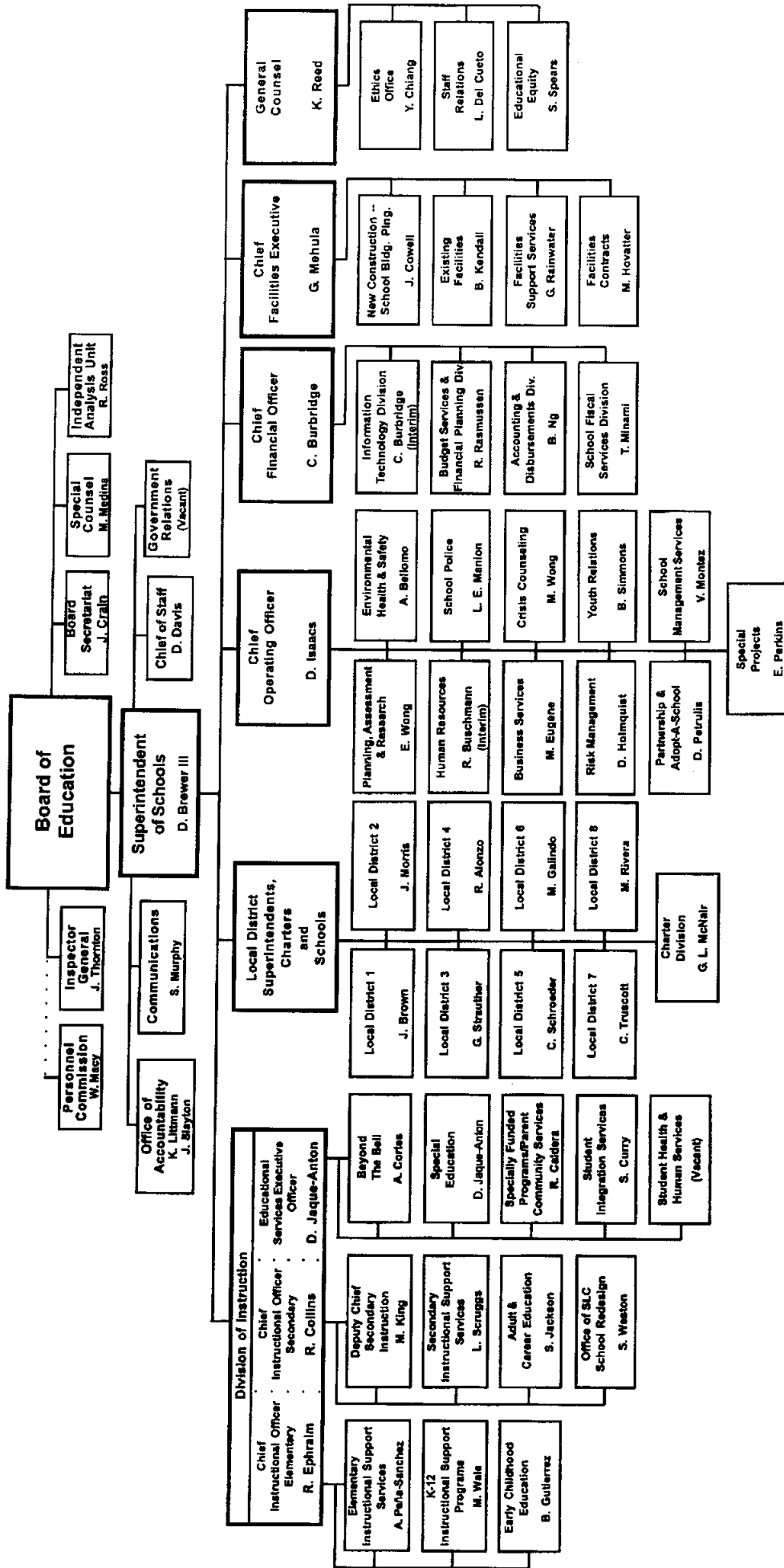
**Myrna Rivera**

**Carmen N. Schroeder**

**Grace Strauther**

**Carol Truscott**

# Los Angeles Unified School District 2006-2007 Organization of Central Support System



# FINANCIAL SECTION



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

## **Independent Auditors' Report**

The Honorable Board of Education  
Los Angeles Unified School District:

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

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

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

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

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

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

KPMG LLP

December 11, 2006



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

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

### Financial Highlights

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

### Overview of the Basic Financial Statements

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

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

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

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

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

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

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

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

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

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

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

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

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

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

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

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

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

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

### Government-Wide Financial Analysis

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

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Management's Discussion and Analysis

June 30, 2006

**Net Assets (In Thousands)**

As of June 30, 2006 and 2005:

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Management's Discussion and Analysis

June 30, 2006

**Changes in Net Assets (In Thousands)**

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

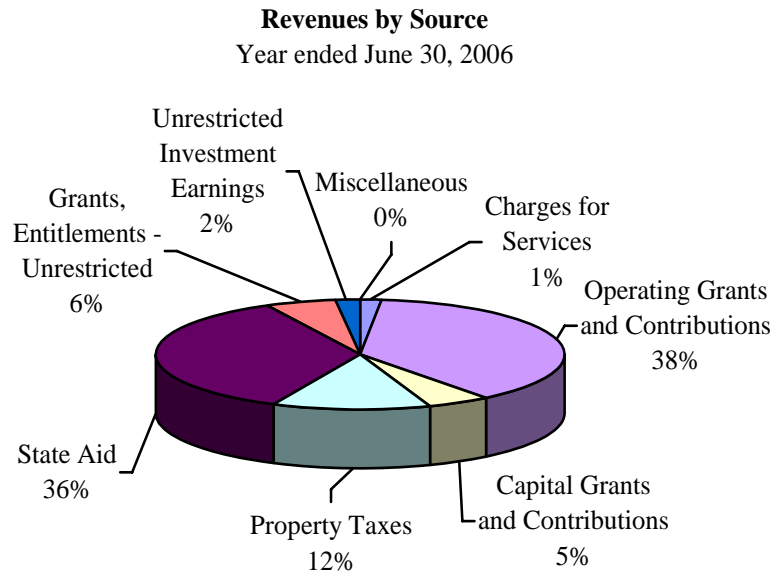
## Management's Discussion and Analysis

June 30, 2006

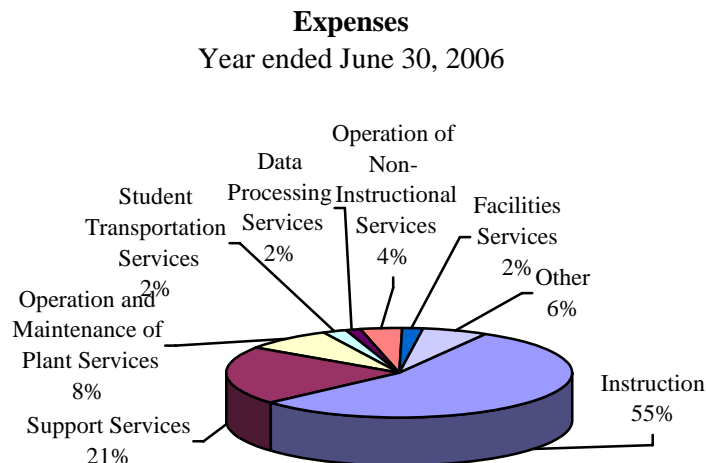
The District's net assets increased by \$462.1 million in the current fiscal year. The major components of this increase are as follows:

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

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



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



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

### Financial Analysis of the Government's Funds

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

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

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

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

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

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

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

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

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

### **General Fund Budgetary Highlights**

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

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

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

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



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Management’s Discussion and Analysis

June 30, 2006

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

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

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

**Capital Assets and Debt Administration**

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

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

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

**Capital Assets** (net of accumulated depreciation)

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

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

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Management's Discussion and Analysis

June 30, 2006

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

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

#### Outstanding Obligations

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

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

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

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

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

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Management's Discussion and Analysis

June 30, 2006

- \$56.8 million of Series A (2006) were issued to advance refund and defease \$56.3 million of Certificates of Participation (COPs), 2002 Series B.
  - \$80.2 million of Series B (2006) were issued to advance refund and defease \$78.9 million of COPs, 2003 Series A.
  - \$210.0 million of Series C (2006) were issued to provide funds for school buses and other Measure Y capital projects; and
  - \$47.4 million of Series D (2006) were issued to advance refund and defease \$42.0 million of Certificates of Participation, 2004A Series A and B and to fund \$5.7 million of future lease payments on the 2000 COPs (Qualified Zone Academy Bonds).
- On February 22, 2006, the District issued \$132.3 million of 2006 General Obligation Refunding Bonds, Series A to advance refund a portion of the General Obligation Bonds, Election of 2002, Series A (2003).

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

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

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

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

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

#### ***State of California and Los Angeles Unified School District Fiscal Outlook***

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Management's Discussion and Analysis

June 30, 2006

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

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

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

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

### ***Bond Revenues***

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

### **Requests for Information**

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Net Assets

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Activities

Year ended June 30, 2006

(In thousands)

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

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

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

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Balance Sheet

Governmental Funds

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

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

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

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

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

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

General Fund

Year ended June 30, 2006

(In thousands)

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

\* Over (under)

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Net Assets

Proprietary Funds

Governmental Activities – Internal Service Funds

June 30, 2006

(In thousands)

Assets:

Cash in county treasury, in banks, and on hand	\$	202,684
Investments		375,945
Accounts receivable – net		916
Accrued interest and dividends receivable		6,177
Prepaid expenses		15,984
Due from other funds		35,643
		<hr/>
Total assets		637,349

Liabilities:

Current:

Vouchers and accounts payable		33,429
Accrued payroll		692
Other payables		2,665
Due to other funds		32,923
Estimated liability for self-insurance claims		170,863
		<hr/>
Total current		240,572

Noncurrent:

Estimated liability for self-insurance claims		560,812
		<hr/>
Total liabilities		801,384
		<hr/>
Total net deficit – unrestricted	\$	(164,035)

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Statement of Revenues, Expenses, and Changes in Fund Net Deficit  
Proprietary Funds  
Governmental Activities – Internal Service Funds  
Year ended June 30, 2006  
(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Cash Flows

Proprietary Funds

Governmental Activities – Internal Service Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds – Pension Trust Funds

Year ended June 30, 2006

(In thousands)

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

See accompanying notes to basic financial statements.



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

### (1) Summary of Significant Accounting Policies

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

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

#### (a) Reporting Entity

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

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

#### Blended Component Units

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

### **(b) *Government-Wide and Fund Financial Statements***

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

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

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

### **(c) *Measurement Focus and Basis of Accounting***

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

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

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

**(d) *Financial Statement Presentation***

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

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

**(e) *Fund Accounting***

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

**Governmental Funds**

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

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

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Notes to Basic Financial Statements

June 30, 2006

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

#### **Other Governmental Funds**

The District has the following nonmajor governmental funds:

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

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

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

#### **Proprietary Funds**

The District has the following Proprietary Funds:

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

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Notes to Basic Financial Statements

June 30, 2006

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

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

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

#### **Fiduciary Funds**

The District has the following Fiduciary Fund:

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

*Annuity Reserve Fund* – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity as of June 30, 2006 is reserved to pay shares of unlocated participants and for other contingencies.

*Attendance Incentive Reserve Fund* – The Attendance Incentive Reserve Fund is used to account for 50% of funds from salary savings as a result of reduced costs of absenteeism of the United Teachers of Los Angeles (UTLA) represented employees.

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

### **Agency Fund**

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

### **(f) Budgetary Control and Encumbrances**

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

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

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

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

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

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

**(g) Cash and Investments**

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

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

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

**(h) Short-term Interfund Receivables/Payables**

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

**(i) Inventories**

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

**(j) Capital Assets**

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

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:

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

**(k) *Contracts Payable***

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

**(l) *Compensated Absences***

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

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



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

June 30, 2006

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

**(m) Long-term Obligations**

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

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

**(n) Revenue Limit Sources/Property Taxes**

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

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

**(o) Financial Reporting Change**

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

**(p) Estimates**

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

**(2) Tax and Revenue Anticipation Notes**

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

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

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

Beginning balance, July 1, 2005	\$	500,000
Additions		410,000
Deductions		<u>(500,000)</u>
Ending balance, June 30, 2006	\$	<u><u>410,000</u></u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

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

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

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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

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

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

Details of proceeds of new debt principal:

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

Details of payments to escrow agents of refunded debt:

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

**(4) Budgetary Appropriation Amendments**

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

**(5) Cash and Investments (In Thousands)**

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

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

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

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

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

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

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Notes to Basic Financial Statements

June 30, 2006

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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

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

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

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



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Notes to Basic Financial Statements

June 30, 2006

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

**Workers' Compensation Fund Investments**

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

**(6) Receivables/Payables**

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

**(7) Capital Assets**

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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Depreciation expense was charged to the following functions:

Governmental activities:

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

**(8) Retirement Plans**

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

**(a) California Public Employees’ Retirement System (CalPERS)**

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

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary (over \$133.33, if the member participates in Social Security) and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2005-2006 were 9.116% for miscellaneous and 41.718% for safety members. The District paid the employee’s contribution of 9% for most of the safety

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

members, and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2006, 2005 and 2004.

Schedule of Employer Contributions:

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

The most recent CalPERS actuarial valuation provides the following information:

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

\*2005 and 2006 are not available.

<sup>1</sup>Includes inflation at 3.0%.

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

June 30, 2006

financial report may be obtained from California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

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

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

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

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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

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

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

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

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

**(c) Public Agency Retirement System (PARS)**

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

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



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

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

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

**(d) *Health and Welfare Benefits for Retirees***

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

- a. Those hired prior to March 11, 1984 must have served a minimum of five consecutive qualifying years immediately prior to retirement;
- b. Those hired from March 11, 1984 through June 30, 1987 must have served a minimum of ten consecutive qualifying years immediately prior to retirement;
- c. Those hired from July 1, 1987 through May 31, 1992 must have served a minimum of 15 consecutive qualifying years immediately prior to retirement, or served ten consecutive qualifying years immediately prior to retirement plus an additional previous ten years which are not consecutive.
- d. Those hired on or after June 1, 1992 must have at least 80 years combined total of consecutive qualifying service and age.

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

The District's contribution obligation for the fiscal year for the health and welfare benefits of District personnel, including the cost of term life insurance coverage and employee assistance for active employees and coverage under health plans for dependents and retirees, generally is subject to an

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

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aggregate contribution limit. Determination of this fiscal year contribution obligation limit occurs through discussions with the relevant collective bargaining units, recommendation by the District-wide Health and Welfare Committee, and is subject to approval by the Board of Education.

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

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

All retirees	\$	6,079,339
Active employees		<u>3,913,954</u>
	\$	<u><u>9,993,293</u></u>

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

**(e) Annuity Reserve Fund**

The Annuity Reserve Fund is a single-employer defined contribution plan. A defined contribution plan bases benefits solely on amounts contributed to the participant's account. Contributions are not based on current year payroll. All contributions were made when the Fund was established in 1972 with 15% of the residual assets received resulting from the merger of the District Retirement System with the State Teachers' Retirement System. In addition, the Board of Education, in lieu of providing certificated salary increases, allocated \$12 million plus interest to the fund from a special override

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tax levied in 1971-1972. Neither the District nor the employees make any additional contributions to the Fund. All of the original 34,031 eligible employees were vested from the date of establishment of the Fund. An employee's pro rata share of the fund is the ratio of his/her contributions to the retirement system, including interest, to the total of the contributions, including interest, of all participants in the fund, calculated as of June 30, 1972.

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

- a. Members on the active and retired rolls, including deferred retirees, of the District Retirement System.
- b. Probationary or permanent certificated employees of the District, holding membership in the STRS or CalPERS and making contributions to either System on that date.

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

#### **(9) Risk Management**

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

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

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

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

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

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

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

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

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

**Certificates of Participation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### *Other Leasing Arrangements*

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

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

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



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

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

**(11) Long-Term Obligations**

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

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

\* Net of unamortized premiums and discounts.

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

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

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

During the year, as mentioned above, the District issued \$178.7 million of Measure Y general obligation bonds to refund \$177.9 million of certificates of participation and \$600.0 million of general obligation refunding bonds to refund \$617.9 million of Proposition BB and Measure K bonds. Both refundings provided resources to purchase securities that were placed in irrevocable trusts for the purpose of

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

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generating resources for future debt service payments on the refunded debt. As a result, the refunded debts are considered defeased and the corresponding liabilities have been removed from the District's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$0.7 million and \$38.2 million, respectively, of which \$16.7 million has been amortized during fiscal year 2005-2006 for the COPs and general obligation refundings. The unamortized balance of \$22.2 million is netted against the new debt and will be amortized in fiscal year 2006-2007, which is shorter than the life of the new debt issued.

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

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

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

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

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

COPs and other capital leases are described in note 10.

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

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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**(12) Interfund Transactions**

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

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

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

The outstanding balances of interfund receivables and payables result mainly from timing differences between the dates that interfund exchange of services or reimbursable expenditures occur, transactions are recorded and payments between funds are made. Interfund receivables and payables also arise when transfers are made to move revenue collected in one fund to another fund

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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where the resources are spent or accounted for, in accordance with budgetary authorization, including amounts provided as matching funds or for debt service.

**(b) Interfund Transfers**

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

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

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Notes to Basic Financial Statements

June 30, 2006

**(13) Fund Equity**

**(a) Governmental Fund Types**

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

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Basic Financial Statements

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

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

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

**(b) Proprietary Fund and Fiduciary Fund Types**

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

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

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

**(14) Contingencies**

**(a) General**

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

**(b) Grants**

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



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to Basic Financial Statements

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### (c) *Construction Contracts*

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

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

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

### (15) **Proposition BB Bonds**

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

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

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contracts established with the schools. The Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39.

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

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

#### **(16) General Obligation Bonds – Proposition 39**

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

On the November 5, 2002 ballot, Measure K, authorizing the District to issue up to \$3.35 billion of General Obligation Bonds, was approved by 67.91% of the voters. These funds will be used to: build new neighborhood schools (\$2.58 billion), repair aging and deteriorating classrooms (\$526 million), improve Early Childhood Programs (\$80 million), upgrade safety and technology (\$66 million), expand public charter schools (\$50 million), joint planning of new schools, parks and libraries (\$10 million) and provide for library books at new schools and improve library technology (\$38 million). The District issued the first series of these bonds, designated as "Los Angeles School District General Obligation Bonds, Election of 2002, Series A (2003)" in February 2003 at a par value of \$2.1 billion. Part of this Series in the aggregate

## LOS ANGELES UNIFIED SCHOOL DISTRICT

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amount of \$131.94 million was refunded in February 2006 by a \$132.33 million issue of 2006 General Obligation Refunding Bonds. The District established a separate fund, Measure K Building Fund, to account for the income and expenditures of the bond proceeds. The District currently anticipates the issuance of three additional series over the next three years.

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

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

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

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

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

The proceeds of Series E (\$400 million) and Series F (\$500 million) were deposited with the County to the credit of the Los Angeles Unified District Building Fund (the Building Fund). Portion of the proceeds was applied to finance new construction, acquisition, rehabilitation, and upgrading of school facilities and acquisition of equipment. The premium of these two series amounting to \$50.056 million was deposited in the Los Angeles Unified School District General Obligation Bond Debt Service Fund (the Debt Service Fund) and will be used only for the payment of principal and interest on the Bonds. Except as required to

# LOS ANGELES UNIFIED SCHOOL DISTRICT

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be rebated to the United States Treasury, interest earned on the investment of moneys held in the Debt Service Funds will be retained in such fund and used to pay principal and interest on the Bonds when due. Interest earned on the investment of moneys held in the Building Fund will be retained in such fund and used for capital expenditures eligible under the Measure R authorization.

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

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

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

### **(17) State School Facilities Bonds**

#### **(a) *Proposition 1A and Proposition 47***

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

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### Notes to Basic Financial Statements

June 30, 2006

have a large number of pupils relative to the size of the school site. In addition, \$50 million will be available to fund joint-use projects. Proposition 47 also includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

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

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

**(b) Proposition 55**

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

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

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

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

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Notes to Basic Financial Statements

June 30, 2006

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

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

#### **(18) Subsequent Event**

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

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

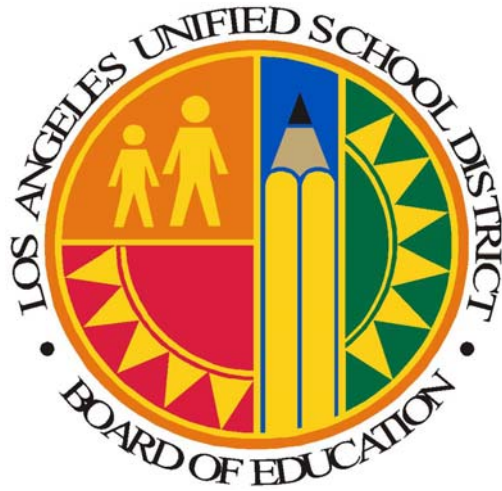
District Bonds Fund

The Building Account – Bond Proceeds was established on April 4, 1997 to account for proceeds from bond issues as a result of the passage of Proposition BB in April 1997.

The Building Account – Measure K was established on February 26, 2003 to account for proceeds from bond issues as a result of the passage of Measure K in November 2002.

The Building Account – Measure R was established on July 19, 2004 to account for proceeds from bond issues as a result of the passage of Measure R in March 2004.

The Building Account – Measure Y was established on January 31, 2006 to account for proceeds from bond issues as a result of the passage of Measure Y in November 2005.





**LOS ANGELES UNIFIED SCHOOL DISTRICT**

District Bonds Fund

Combining Balance Sheet

June 30, 2006

(In thousands)

<b>Assets</b>	<b>Building account – bond proceeds</b>	<b>Building account – measure K</b>	<b>Building account – measure R</b>	<b>Building account – measure Y</b>	<b>Total</b>
Cash in county treasury, in banks, and on hand	\$ 230,523	\$ 367,467	\$ 384,596	\$ 168,533	\$ 1,151,119
Cash held by trustee	—	300	76	—	376
Accounts receivable – net	6,966	2,004	—	—	8,970
Accrued interest and dividends receivable	3,402	6,858	5,946	2,289	18,495
Due from other funds	5,104	98,753	39	—	103,896
Total assets	<u>\$ 245,995</u>	<u>\$ 475,382</u>	<u>\$ 390,657</u>	<u>\$ 170,822</u>	<u>\$ 1,282,856</u>
<b>Liabilities and Fund Balances</b>					
Vouchers and accounts payable	\$ 10,693	\$ 42,228	\$ 14,946	\$ 2,476	\$ 70,343
Contracts payable	7,768	48,974	28,151	—	84,893
Accrued payroll	364	1,554	771	—	2,689
Other payables	8,959	—	—	—	8,959
Due to other funds	1,712	9,730	4,263	108	15,813
Total liabilities	<u>29,496</u>	<u>102,486</u>	<u>48,131</u>	<u>2,584</u>	<u>182,697</u>
Fund balances:					
Reserved for:					
Revolving and imprest funds	3,000	—	300	—	3,300
Total reserved fund balances	<u>3,000</u>	<u>—</u>	<u>300</u>	<u>—</u>	<u>3,300</u>
Unreserved:					
Designated for:					
Subsequent year expenditures	213,499	372,896	342,226	168,238	1,096,859
Total designated	<u>213,499</u>	<u>372,896</u>	<u>342,226</u>	<u>168,238</u>	<u>1,096,859</u>
Total unreserved fund balances	<u>213,499</u>	<u>372,896</u>	<u>342,226</u>	<u>168,238</u>	<u>1,096,859</u>
Total fund balances	<u>216,499</u>	<u>372,896</u>	<u>342,526</u>	<u>168,238</u>	<u>1,100,159</u>
Total liabilities and fund balances	<u>\$ 245,995</u>	<u>\$ 475,382</u>	<u>\$ 390,657</u>	<u>\$ 170,822</u>	<u>\$ 1,282,856</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

District Bonds Fund

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2006

(In thousands)

	<b>Building account – bond proceeds</b>	<b>Building account – measure K</b>	<b>Building account – measure R</b>	<b>Building account – measure Y</b>	<b>Total</b>
Revenues:					
Other local revenues	\$ 10,652	\$ 23,583	\$ 15,397	\$ 3,000	\$ 52,632
Total revenues	<u>10,652</u>	<u>23,583</u>	<u>15,397</u>	<u>3,000</u>	<u>52,632</u>
Expenditures:					
Current:					
Classified salaries	6,560	28,721	16,717	68	52,066
Employee benefits	2,741	7,542	6,673	17	16,973
Books and supplies	596	6,314	4,390	20	11,320
Services and other operating expenditures	8,713	12,655	18,469	6,673	46,510
Capital outlay	40,310	636,425	356,529	20,367	1,053,631
Total expenditures	<u>58,920</u>	<u>691,657</u>	<u>402,778</u>	<u>27,145</u>	<u>1,180,500</u>
Deficiency of revenues under expenditures	<u>(48,268)</u>	<u>(668,074)</u>	<u>(387,381)</u>	<u>(24,145)</u>	<u>(1,127,868)</u>
Other financing sources (uses):					
Transfers in	—	—	—	1	1
Transfers out	—	—	—	(208,618)	(208,618)
Issuance of bonds	—	—	900,000	215,712	1,115,712
Premium on bonds issued	—	—	4,721	3,182	7,903
Refunding bonds issued	—	—	—	178,673	178,673
Premium on refunding bonds issued	—	—	—	3,433	3,433
Total other financing sources	<u>—</u>	<u>—</u>	<u>904,721</u>	<u>192,383</u>	<u>1,097,104</u>
Net changes in fund balances	<u>(48,268)</u>	<u>(668,074)</u>	<u>517,340</u>	<u>168,238</u>	<u>(30,764)</u>
Fund balances, July 1, 2005	<u>264,767</u>	<u>1,040,970</u>	<u>(174,814)</u>	<u>—</u>	<u>1,130,923</u>
Fund balances, June 30, 2006	<u>\$ 216,499</u>	<u>\$ 372,896</u>	<u>\$ 342,526</u>	<u>\$ 168,238</u>	<u>\$ 1,100,159</u>

See accompanying independent auditors' report.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Nonmajor Governmental Funds

#### **Special Revenue Funds**

The Adult Education Fund is used to account for resources committed to the operation of Community Adult Schools including educational programs funded by other government agencies. This Fund was established as authorized by State Education Code Section 42238. Revenues are primarily derived from State apportionments, federal subventions, investment income, and adult education fees.

The Cafeteria Fund is used to account for resources designated for the operation of the District's food services programs. Revenues are primarily derived from federal and state subsidies, food sales, and investment income. Since the primary source of revenues is from federal and state subsidies rather than food sales, this fund is classified as a Special Revenue Fund rather than as an Enterprise Fund.

The Child Development Fund is used to account for resources committed to the operation of the District's child development programs. Revenues are primarily derived from federal and state grants and apportionments, Early education center fees, investment income and operating transfers from the General Fund.

The Deferred Maintenance Fund is used to account for resources designated for the major repair or replacement of District property under the plan approved by the State Allocation Board. Revenues are derived from State apportionments, District matching funds and investment income.

#### **Debt Service Funds**

The Bond Interest and Redemption Fund is used to account for the payment of the principal and interest on the Proposition BB, Measure K, Measure R, and Measure Y bond issues. Revenues are derived from ad valorem taxes levied upon all property subject to tax by the District. Such taxes, when collected, are placed and maintained by the County of Los Angeles in a Debt Service Fund under the District's name.

The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Aid Fund apportionments. These taxes will continue to be levied until the indebtedness is paid in full.

The Capital Services Fund is used to account for the accumulation of resources for the repayment of principal and interest on Certificates of Participation and long-term capital lease agreements. Revenues are derived primarily from operating transfers from user funds and investment income.

#### **Capital Projects Funds**

The Building Fund is used to account for revenue from rentals and leases of real property and other resources designated for facility expansion.

The State School Building Lease - Purchase Fund is used to account for State apportionments received in accordance with State Education Code Sections 17700-17780. Projects are funded by the State subject to appropriation of funds in the State Budget. The District may be required to transfer to this fund any available moneys from other funds as the District's contribution to a particular project.

The Special Reserve Fund is used to account for District resources designated for capital outlay purposes such as land purchases, ground improvements, facilities construction and improvements, new acquisitions, and related expenditures.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Nonmajor Governmental Funds

The Special Reserve Fund – FEMA-Earthquake is used to account for funds received from the Federal Emergency Management Agency (FEMA) for capital outlay projects resulting from the January 17, 1994 Northridge Earthquake.

The Special Reserve Fund – FEMA-Hazard Mitigation was established on April 15, 1996 to account for funds received from FEMA and for the 25% District-matching funds for the retrofit/replacement of pendant lighting and suspended ceilings in selected buildings at schools, offices, and children’s centers.

The Special Reserve Fund – Community Redevelopment Agency is used to account for reimbursements of tax increment revenues from certain community redevelopment agencies based on agreements between the District and the agencies. These reimbursements are to be used for capital projects within the respective redevelopment areas covered in the agreements.

The Capital Facilities Account Fund was established in January 1, 1987 in accordance with Section 53080 of the California Government Code and is used to account for resources received from fees levied upon new residential, commercial, or industrial development projects within the District’s boundaries in order to obtain funds for the construction or acquisition of school facilities to relieve overcrowding.

The County School Facilities Fund was established on March 9, 1999 in accordance with Education Code Section 17070 and is used to account for funds received from the State’s Proposition 1A bond proceeds.

The County School Facilities Fund – Proposition 47 was established on March 25, 2003 in accordance with Education Code Section 17070.43 and is used to account for apportionments received from the State School Facilities Fund. The passage of Proposition 47 in November 2002 authorizes the sale of bonds, which provides funding for new school facility construction, modernization projects, and facility hardship grants.

The County School Facilities Fund – Proposition 55 was established on July 19, 2004 to account for the matching funds received as a result of the passage of Measure R. Proposition 55 was passed by the voters in March 2004.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2006

(In thousands)

Assets	Special revenue					Debt service				Capital projects	
	Adult education	Cafeteria	Child development	Deferred maintenance	Total	Bond interest and redemption	Tax override	Capital services	Total	Building	State School building lease-purchase
Cash in county treasury, in banks, and on hand	\$ 31,656	\$ 52,186	\$ 28,847	\$ 110,136	\$ 222,825	\$ 282,984	\$ 81	\$ 7,488	\$ 290,553	\$ 2,088	\$ 17,286
Cash held by trustee	—	—	—	—	—	—	—	3,025	3,025	—	—
Investments	—	—	—	—	—	—	—	16,022	16,022	—	—
Taxes receivable	—	—	—	—	—	41,360	—	—	41,360	—	—
Accounts receivable – net	28,118	47,042	4,201	—	79,361	—	—	4,287	4,287	—	26
Accrued interest and dividends receivable	565	494	—	1,100	2,159	—	—	168	168	21	247
Due from other funds	3,893	2,112	4,133	—	10,138	—	—	287	287	27	31
Inventories	64	7,562	54	—	7,680	—	—	—	—	—	—
<b>Total assets</b>	<b>\$ 64,296</b>	<b>\$ 109,396</b>	<b>\$ 37,235</b>	<b>\$ 111,236</b>	<b>\$ 322,163</b>	<b>\$ 324,344</b>	<b>\$ 81</b>	<b>\$ 31,277</b>	<b>\$ 355,702</b>	<b>\$ 2,136</b>	<b>\$ 17,590</b>
<b>Liabilities and Fund Balances</b>											
Vouchers and accounts payable	\$ 2,214	\$ 5,835	\$ 1,146	\$ 564	\$ 9,759	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ 1,675
Contracts payable	—	—	—	—	—	—	—	—	—	—	932
Accrued payroll	4,418	5,494	4,178	—	14,090	—	—	—	—	2	—
Other payables	1,658	1,188	5,659	—	8,505	—	—	336	336	172	9,608
Due to other funds	28,661	37,712	19,274	77	85,724	—	—	11,508	11,508	—	8
Deferred revenue	8,264	—	776	—	9,040	41,360	—	—	41,360	—	—
<b>Total liabilities</b>	<b>45,215</b>	<b>50,229</b>	<b>31,033</b>	<b>641</b>	<b>127,118</b>	<b>41,360</b>	<b>—</b>	<b>11,860</b>	<b>53,220</b>	<b>174</b>	<b>12,223</b>
Fund balances:											
Reserved for:											
Revolving and imprest funds	132	—	55	—	187	—	—	—	—	—	—
Inventories	64	7,562	54	—	7,680	—	—	—	—	—	—
Debt service	—	—	—	—	—	282,984	81	19,417	302,482	—	—
<b>Total reserved fund balances</b>	<b>196</b>	<b>7,562</b>	<b>109</b>	<b>—</b>	<b>7,867</b>	<b>282,984</b>	<b>81</b>	<b>19,417</b>	<b>302,482</b>	<b>—</b>	<b>—</b>
Unreserved:											
Designated for:											
Subsequent year expenditures	10,291	51,015	6,093	110,595	177,994	—	—	—	—	1,962	5,367
<b>Total designated</b>	<b>10,291</b>	<b>51,015</b>	<b>6,093</b>	<b>110,595</b>	<b>177,994</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,962</b>	<b>5,367</b>
Undesignated	8,594	590	—	—	9,184	—	—	—	—	—	—
<b>Total unreserved fund balances</b>	<b>18,885</b>	<b>51,605</b>	<b>6,093</b>	<b>110,595</b>	<b>187,178</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,962</b>	<b>5,367</b>
<b>Total fund balances</b>	<b>19,081</b>	<b>59,167</b>	<b>6,202</b>	<b>110,595</b>	<b>195,045</b>	<b>282,984</b>	<b>81</b>	<b>19,417</b>	<b>302,482</b>	<b>1,962</b>	<b>5,367</b>
<b>Total liabilities and fund balances</b>	<b>\$ 64,296</b>	<b>\$ 109,396</b>	<b>\$ 37,235</b>	<b>\$ 111,236</b>	<b>\$ 322,163</b>	<b>\$ 324,344</b>	<b>\$ 81</b>	<b>\$ 31,277</b>	<b>\$ 355,702</b>	<b>\$ 2,136</b>	<b>\$ 17,590</b>

See accompanying independent auditors' report.

(Continued)

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Nonmajor Governmental Funds

Combining Balance Sheet (Continued)

June 30, 2006

(In thousands)

Assets	Special reserve	Special reserve-FEMA-earthquake	Special reserve-FEMA-hazard mitigation	Special reserve-community redevelopment agency	Capital facilities account	County school facilities bonds			Total	Total	Total nonmajor governmental funds
						County school facilities	County school facilities-prop 47	County school facilities-prop 55			
Cash in county treasury, in banks, and on hand	\$ 179,304	\$ 5,024	\$ 1,510	\$ 10,625	\$ 178,155	\$ 90,224	\$ 60,181	\$ 287,951	\$ 438,356	\$ 832,348	\$ 1,345,726
Cash held by trustee	97,579	—	—	—	—	6	—	—	6	97,585	100,610
Investments	—	—	—	—	—	—	—	—	—	—	16,022
Taxes receivable	—	—	—	—	—	—	—	—	—	—	41,360
Accounts receivable – net	22,500	—	—	—	6,660	—	—	—	—	29,186	112,834
Accrued interest and dividends receivable	1,920	—	—	106	2,315	1,431	1,338	2,603	5,372	9,981	12,308
Due from other funds	86,916	736	516	1,057	1	—	84	—	84	89,368	99,793
Inventories	—	—	—	—	—	—	—	—	—	—	7,680
<b>Total assets</b>	<b>\$ 388,219</b>	<b>\$ 5,760</b>	<b>\$ 2,026</b>	<b>\$ 11,788</b>	<b>\$ 187,131</b>	<b>\$ 91,661</b>	<b>\$ 61,603</b>	<b>\$ 290,554</b>	<b>\$ 443,818</b>	<b>\$ 1,058,468</b>	<b>\$ 1,736,333</b>
<b>Liabilities and Fund Balances</b>											
Vouchers and accounts payable	\$ 2,563	\$ 472	\$ 232	\$ 17	\$ 4,399	\$ 7,227	\$ 1,337	\$ 3,506	\$ 12,070	\$ 21,428	\$ 31,203
Contracts payable	9,005	412	—	—	3,563	17,347	4,988	1,856	24,191	38,103	38,103
Accrued payroll	13	—	—	—	20	—	22	—	22	57	14,147
Other payables	2,223	1,916	—	—	2,018	8	—	—	8	15,945	24,786
Due to other funds	146,419	594	1	22	245	441	288	61,876	62,605	209,894	307,126
Deferred revenue	—	—	—	—	—	—	—	—	—	—	50,400
<b>Total liabilities</b>	<b>160,223</b>	<b>3,394</b>	<b>233</b>	<b>39</b>	<b>10,245</b>	<b>25,023</b>	<b>6,635</b>	<b>67,238</b>	<b>98,896</b>	<b>285,427</b>	<b>465,765</b>
Fund balances:											
Reserved for:											
Revolving and imprest funds	—	—	—	—	—	—	—	—	—	—	187
Inventories	—	—	—	—	—	—	—	—	—	—	7,680
Debt service	—	—	—	—	—	—	—	—	—	—	302,482
<b>Total reserved fund balances</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>310,349</b>
Unreserved:											
Designated for:											
Subsequent year expenditures	227,996	2,366	—	11,749	176,886	66,638	54,968	223,316	344,922	771,248	949,242
<b>Total designated</b>	<b>227,996</b>	<b>2,366</b>	<b>—</b>	<b>11,749</b>	<b>176,886</b>	<b>66,638</b>	<b>54,968</b>	<b>223,316</b>	<b>344,922</b>	<b>771,248</b>	<b>949,242</b>
Undesignated	—	—	1,793	—	—	—	—	—	—	1,793	10,977
<b>Total unreserved fund balances</b>	<b>227,996</b>	<b>2,366</b>	<b>1,793</b>	<b>11,749</b>	<b>176,886</b>	<b>66,638</b>	<b>54,968</b>	<b>223,316</b>	<b>344,922</b>	<b>773,041</b>	<b>960,219</b>
<b>Total fund balances</b>	<b>227,996</b>	<b>2,366</b>	<b>1,793</b>	<b>11,749</b>	<b>176,886</b>	<b>66,638</b>	<b>54,968</b>	<b>223,316</b>	<b>344,922</b>	<b>773,041</b>	<b>1,270,568</b>
<b>Total liabilities and fund balances</b>	<b>\$ 388,219</b>	<b>\$ 5,760</b>	<b>\$ 2,026</b>	<b>\$ 11,788</b>	<b>\$ 187,131</b>	<b>\$ 91,661</b>	<b>\$ 61,603</b>	<b>\$ 290,554</b>	<b>\$ 443,818</b>	<b>\$ 1,058,468</b>	<b>\$ 1,736,333</b>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

June 30, 2006

(In thousands)

	Special revenue					Debt service				Capital projects	
	Adult education	Cafeteria	Child development	Deferred maintenance	Total	Bond interest and redemption	Tax override	Capital services	Total	Building	State School building lease-purchase
Revenues:											
Revenue limit sources	\$ 155,296	\$ —	\$ —	\$ —	\$ 155,296	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Federal revenues	18,970	216,733	15,356	—	251,059	—	—	—	—	—	—
Other state revenues	11,453	14,946	80,819	30,661	137,879	2,674	8	—	2,682	—	(1,353)
Other local revenues	2,051	20,828	6,997	2,825	32,701	314,679	364	1,212	316,255	153	—
Total revenues	187,770	252,507	103,172	33,486	576,935	317,353	372	1,212	318,937	153	(1,353)
Expenditures:											
Current:											
Certificated salaries	97,849	—	38,632	—	136,481	—	—	—	—	—	—
Classified salaries	20,826	86,247	33,709	3,214	143,996	—	—	—	—	—	39
Employee benefits	38,908	40,475	26,840	1,341	107,564	—	—	—	—	—	16
Books and supplies	5,321	109,896	3,233	683	119,133	—	—	—	—	—	4
Services and other operating expenditures	5,957	9,095	4,304	3,533	22,889	—	—	—	—	2	131
Capital outlay	273	—	76	1,064	1,413	—	—	—	—	—	4,599
Debt service – principal	—	—	—	—	—	74,995	322	14,876	90,193	—	—
Debt service – bond and COPs interest	—	—	—	—	—	228,998	61	11,225	240,284	—	—
Debt service – refunding bond issuance cost	—	—	—	—	—	2,732	—	—	2,732	—	—
Total expenditures	169,134	245,713	106,794	9,835	531,476	306,725	383	26,101	333,209	2	4,789
Excess (deficiency) of revenues over (under expenditures)	18,636	6,794	(3,622)	23,651	45,459	10,628	(11)	(24,889)	(14,272)	151	(6,142)
Other financing sources (uses):											
Transfers in	—	11,140	8,764	30,000	49,904	—	—	210,068	210,068	—	—
Transfers – support costs	(6,546)	—	(702)	—	(7,248)	—	—	—	—	—	—
Transfers out	—	—	(2,000)	—	(2,000)	—	—	(1)	(1)	—	(2,629)
Issuance of Bonds	—	—	—	—	—	—	—	—	—	—	—
Premium on bonds issued	—	—	—	—	—	56,380	—	—	56,380	—	—
Refunding bonds issued	—	—	—	—	—	600,000	—	—	600,000	—	—
Premium on refunding bonds issued	—	—	—	—	—	60,625	—	—	60,625	—	—
Issuance of COPs	—	—	—	—	—	—	—	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—	—	(656,098)	—	—	(656,098)	—	—
Payment to refunded COPs escrow agent (from proceeds of refunding bonds)	—	—	—	—	—	—	—	(178,618)	(178,618)	—	—
Total other financing sources (uses)	(6,546)	11,140	6,062	30,000	40,656	60,907	—	31,449	92,356	—	(2,629)
Net changes in fund balances	12,090	17,934	2,440	53,651	86,115	71,535	(11)	6,560	78,084	151	(8,771)
Fund balances, July 1, 2005	6,991	41,233	3,762	56,944	108,930	211,449	92	12,857	224,398	1,811	14,138
Fund balances, July 30, 2006	\$ 19,081	\$ 59,167	\$ 6,202	\$ 110,595	\$ 195,045	\$ 282,984	\$ 81	\$ 19,417	\$ 302,482	\$ 1,962	\$ 5,367

See accompanying independent auditors' report.

(Continued)

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

June 30, 2006

(In thousands)

	Special reserve	Special reserve-FEMA-earthquake	Special reserve-FEMA-hazard mitigation	Special reserve-community redevelopment agency	Capital facilities account	County school facilities bonds			Total	Total	Total nonmajor governmental funds
						County school facilities	County school facilities-prop 47	County school facilities-prop 55			
Revenues:											
Revenue limit sources	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 155,296
Federal revenues	4,848	2,639	1,991	—	—	—	—	—	—	9,478	260,537
Other state revenues	—	2,816	—	—	—	(56)	2,120	360,214	362,278	363,741	504,302
Other local revenues	9,606	—	—	2,087	91,864	23,124	6,274	5,170	34,568	138,278	487,234
Total revenues	14,454	5,455	1,991	2,087	91,864	23,068	8,394	365,384	396,846	511,497	1,407,369
Current:											
Certificated salaries	—	—	—	—	—	—	—	—	—	—	136,481
Classified salaries	1,313	182	3	9	577	756	1,679	35	2,470	4,593	148,589
Employee benefits	545	67	1	4	237	298	677	17	992	1,862	109,426
Books and supplies	224	10	—	4	213	285	92	—	377	832	119,965
Services and other operating expenditures	226	1,519	133	140	1,388	329	1,254	23	1,606	5,145	28,034
Capital outlay	91,999	3,485	61	636	24,077	114,054	14,736	161,075	289,865	414,722	416,135
Debt service – principal	—	—	—	—	—	—	—	—	—	—	90,193
Debt service – bond and COPs interest	—	—	—	—	—	—	—	—	—	—	240,284
Debt service – refunding bond issuance cost	—	—	—	—	—	—	—	—	—	—	2,732
Total expenditures	94,307	5,263	198	793	26,492	115,722	18,438	161,150	295,310	427,154	1,291,839
Excess (deficiency) of revenues over (under expenditures)	(79,853)	192	1,793	1,294	65,372	(92,654)	(10,044)	204,234	101,536	84,343	115,530
Transfers in	27,403	2,225	—	—	—	—	—	—	—	29,628	289,600
Transfers – support costs	—	—	—	—	—	—	—	—	—	—	(7,248)
Transfers out	(57,312)	(520)	(2,225)	—	(21,606)	(3,046)	—	—	(3,046)	(87,338)	(89,339)
Issuance of Bonds	—	—	—	—	—	—	—	—	—	—	—
Premium on bonds issued	—	—	—	—	—	—	—	—	—	—	56,380
Refunding bonds issued	—	—	—	—	—	—	—	—	—	—	600,000
Premium on refunding bonds issued	—	—	—	—	—	—	—	—	—	—	60,625
Issuance of COPs	10,000	—	—	—	—	—	—	—	—	10,000	10,000
Payment to refunded bonds escrow agent	—	—	—	—	—	—	—	—	—	—	(656,098)
Payment to refunded COPs escrow agent (from proceeds of refunding bonds)	—	—	—	—	—	—	—	—	—	—	(178,618)
Total other financing sources (uses)	(19,909)	1,705	(2,225)	—	(21,606)	(3,046)	—	—	(3,046)	(47,710)	85,302
Net changes in fund balances	(99,762)	1,897	(432)	1,294	43,766	(95,700)	(10,044)	204,234	98,490	36,633	200,832
Fund balances, July 1, 2005	327,758	469	2,225	10,455	133,120	162,338	65,012	19,082	246,432	736,408	1,069,736
Fund balances, July 30, 2006	\$ 227,996	\$ 2,366	\$ 1,793	\$ 11,749	\$ 176,886	\$ 66,638	\$ 54,968	\$ 223,316	\$ 344,922	\$ 773,041	\$ 1,270,568

See accompanying independent auditors' report.



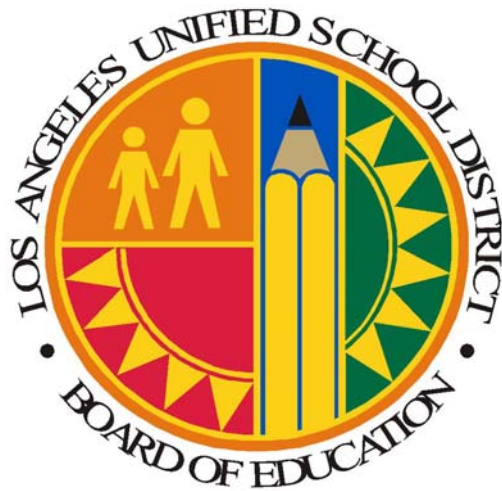
## **LOS ANGELES UNIFIED SCHOOL DISTRICT**

### **Internal Service Funds**

The Health and Welfare Benefits Fund was established in 1982 pursuant to Education Code 39602 to pay for claims, administrative costs, insurance premiums, and related expenditures for the District's Health and Welfare Benefits program. Medical and dental claims for the self-insured portion of the Fund are administered by outside claims administrators. Premium payments to health maintenance organizations for medical benefits and to outside carriers for vision services, dental services, and optional life insurance are also paid out of this Fund.

The Workers' Compensation Self-Insurance Fund was established in 1977 pursuant to Education Code 39602 to pay for claims, excess insurance coverage, administrative costs, and related expenditures. Workers' compensation claims are administered for the District by an outside claims administrator.

The Liability Self-Insurance Fund was established in 1977 pursuant to Education Code 39602 to pay claims, excess insurance coverage, administrative costs and related expenditures, and to provide funds for insurance deductible amounts. Liability claims are administered for the District by an outside claims administrator.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Internal Service Funds

Combining Balance Sheet

Year ended June 30, 2006

(In thousands)

<b>Assets</b>	<b>Health and Welfare Benefits</b>	<b>Workers' Compensation</b>	<b>Liability</b>	<b>Total</b>
Cash in county treasury, in banks, and on hand	\$ 90,408	\$ 93,311	\$ 18,965	\$ 202,684
Investments	—	375,945	—	375,945
Accounts receivable – net	641	275	—	916
Accrued interest and dividends receivable	1,236	4,537	404	6,177
Prepaid expense	10,946	—	5,038	15,984
Due from other funds	3,109	20,378	12,156	35,643
Total assets	<u>\$ 106,340</u>	<u>\$ 494,446</u>	<u>\$ 36,563</u>	<u>\$ 637,349</u>
<b>Liabilities</b>				
Current:				
Vouchers and accounts payable	\$ 28,651	\$ 2,589	\$ 2,189	\$ 33,429
Accrued payroll	150	373	169	692
Other payables	242	2,423	—	2,665
Due to other funds	24,879	1,546	6,498	32,923
Estimated liability for self-insurance claims	41,050	107,644	22,169	170,863
Noncurrent:				
Estimated liability for self-insurance claims	—	560,812	—	560,812
Total liabilities	94,972	675,387	31,025	801,384
Total net assets (deficit)	11,368	(180,941)	5,538	(164,035)
Total liabilities and net assets	<u>\$ 106,340</u>	<u>\$ 494,446</u>	<u>\$ 36,563</u>	<u>\$ 637,349</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2006

(In thousands)

	<b>Health and Welfare Benefits</b>	<b>Workers' Compensation</b>	<b>Liability</b>	<b>Total</b>
Operating revenues:				
In-district premiums	\$ 711,842	\$ 188,303	\$ 12,151	\$ 912,296
Operating expenses:				
Salaries	1,428	4,029	1,474	6,931
Employee benefits	866	1,761	603	3,230
Supplies	93	163	49	305
Premiums and claims expenses	713,276	78,840	10,478	802,594
Claims administration	—	12,424	923	13,347
Other contracted services	159	390	6	555
Total operating expenses	<u>715,822</u>	<u>97,607</u>	<u>13,533</u>	<u>826,962</u>
Operating income (loss)	(3,980)	90,696	(1,382)	85,334
Nonoperating revenues:				
Investment income	3,913	16,967	994	21,874
Other local income	39	—	—	39
Total nonoperating revenues	<u>3,952</u>	<u>16,967</u>	<u>994</u>	<u>21,913</u>
Changes in net assets (deficit)	(28)	107,663	(388)	107,247
Total net assets (deficit), July 1, 2005	<u>11,396</u>	<u>(288,604)</u>	<u>5,926</u>	<u>(271,282)</u>
Total net assets (deficit), June 30, 2006	\$ <u>11,368</u>	\$ <u>(180,941)</u>	\$ <u>5,538</u>	\$ <u>(164,035)</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Internal Service Funds

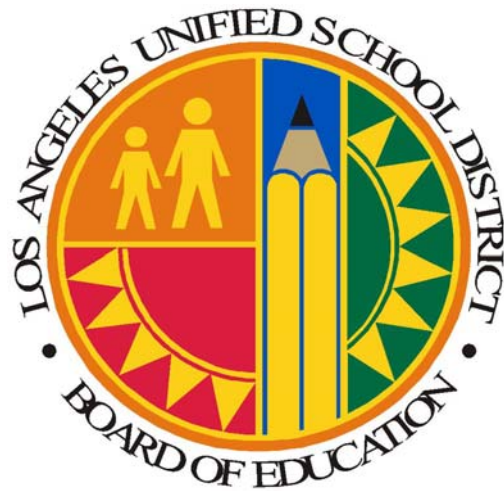
Combining Statement of Cash Flows

Year ended June 30, 2006

(In thousands)

	<u>Health and Welfare Benefits</u>	<u>Workers' Compensation</u>	<u>Liability</u>	<u>Total</u>
Cash flows from operating activities:				
Cash payments to employees for services	\$ (1,364)	\$ (5,064)	\$ (1,480)	\$ (7,908)
Cash payments for goods and services	(721,806)	(99,082)	(9,666)	(830,554)
Receipts from assessment to other funds	708,979	173,724	15,123	897,826
Other operating revenue (miscellaneous)	11,819	1,121	13	12,953
Net cash provided (used) by operating activities	<u>(2,372)</u>	<u>70,699</u>	<u>3,990</u>	<u>72,317</u>
Cash flows from investing activities:				
Earnings on investments	3,381	13,965	675	18,021
Purchase of investments	—	(77,535)	—	(77,535)
Net cash provided (used) by investing activities	<u>3,381</u>	<u>(63,570)</u>	<u>675</u>	<u>(59,514)</u>
Net increase in cash and cash equivalents	1,009	7,129	4,665	12,803
Cash and cash equivalents, July 1	<u>89,399</u>	<u>86,182</u>	<u>14,300</u>	<u>189,881</u>
Cash and cash equivalents, June 30	\$ <u>90,408</u>	\$ <u>93,311</u>	\$ <u>18,965</u>	\$ <u>202,684</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (3,980)	\$ 90,696	\$ (1,382)	\$ 85,334
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Increase in accounts receivable	308	5	—	313
Increase in prepaid expense	18	—	388	406
(Increase) decrease in due from other funds	1,239	(3,957)	5,572	2,854
Increase in vouchers and accounts payable	5,379	122	1,660	7,161
Increase (decrease) in accrued payroll	20	(55)	(6)	(41)
Increase in other payables	32	1,810	—	1,842
Increase (decrease) in due to other funds	(9,174)	(1,113)	4,232	(6,055)
Increase (decrease) in estimated liability for self-insurance claims – current	3,786	(62,592)	(6,474)	(65,280)
Increase in estimated liability for self-insurance claims – noncurrent	—	45,783	—	45,783
Total adjustments	<u>1,608</u>	<u>(19,997)</u>	<u>5,372</u>	<u>(13,017)</u>
Net cash provided by operating activities	\$ <u>(2,372)</u>	\$ <u>70,699</u>	\$ <u>3,990</u>	\$ <u>72,317</u>

See accompanying independent auditors' report.



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Fiduciary Funds

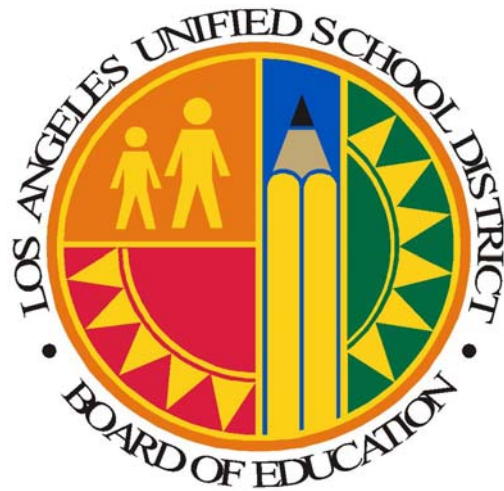
#### Pension Trust Funds:

The Annuity Reserve Fund was established in 1972 to account for all financial resources used to provide vested retirement benefits to certificated employees resulting from the dissolution of the District's teacher retirement system. On November 18, 2003, participants voted to dissolve the Fund and distribute its net assets to the members. The Fund balance remaining as of June 30, 2006 represents shares of unlocated participants and reserve for other contingencies.

The Attendance Incentive Reserve Fund was established on November 21, 1994 to account for 50% of the salary savings from substitute teachers' accounting resulting from reduced costs of absenteeism of UTLA represented employees. The intent was to reward regular attendance of teachers in order to improve the instructional program.

#### Agency Fund:

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





**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Fiduciary Funds

Combining Balance Sheet

Year ended June 30, 2006

(In thousands)

	<b>Pension Trust Funds</b>			<b>Agency Fund</b>	<b>Total fiduciary funds</b>
	<b>Annuity reserve</b>	<b>Attendance incentive reserve</b>	<b>Total</b>	<b>Student body fund</b>	
<b>Assets</b>					
Cash in county treasury, in banks, and on hand	\$ 25	\$ 18,078	\$ 18,103	\$ 20,209	\$ 38,312
Investments	430		430	—	430
Due from other funds	—	480	480	—	480
Accrued interest and dividends receivable	—	162	162	—	162
<b>Total assets</b>	<b>\$ 455</b>	<b>\$ 18,720</b>	<b>\$ 19,175</b>	<b>\$ 20,209</b>	<b>\$ 39,384</b>
<b>Liabilities</b>					
Vouchers and accounts payable	\$ 4	\$ —	\$ 4	\$ —	\$ 4
Other payables	—	18,698	18,698	20,209	38,907
Due to other funds	—	22	22	—	22
<b>Total liabilities</b>	<b>4</b>	<b>18,720</b>	<b>18,724</b>	<b>20,209</b>	<b>38,933</b>
<b>Total net assets – unrestricted</b>	<b>451</b>	<b>—</b>	<b>451</b>	<b>—</b>	<b>451</b>
<b>Total liabilities and net assets</b>	<b>\$ 455</b>	<b>\$ 18,720</b>	<b>\$ 19,175</b>	<b>\$ 20,209</b>	<b>\$ 39,384</b>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Fiduciary Funds – Pension Trust Funds

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2006

(In thousands)

	<u>Annuity reserve</u>	<u>Attendance incentive reserve</u>	<u>Total</u>
Additions:			
Investment income	\$ 15	\$ 70	\$ 85
Total additions	<u>15</u>	<u>70</u>	<u>85</u>
Deductions:			
Distributions to participants	9	—	9
Other contracted services	<u>—</u>	<u>70</u>	<u>70</u>
Total deductions	<u>9</u>	<u>70</u>	<u>79</u>
Changes in net assets	6	—	6
Total net assets, July 1, 2005	<u>445</u>	<u>—</u>	<u>445</u>
Total net assets, June 30, 2006	<u><u>\$ 451</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 451</u></u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
 Fiduciary Funds – Agency Funds – Student Body Fund

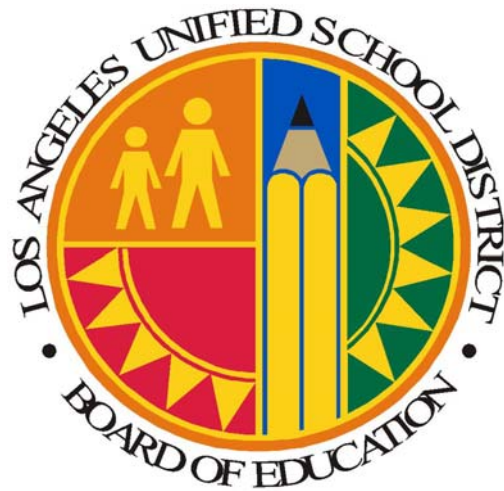
Statement of Changes in Assets and Liabilities

Year ended June 30, 2006

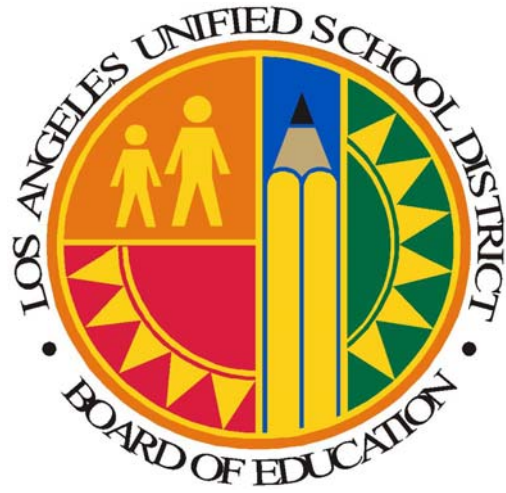
(In thousands)

	<b>Balance July 1, 2005</b>	<b>Net deductions</b>	<b>Balance July 1, 2006</b>
<b>Assets:</b>			
Cash in county treasury, in banks, and on hand	\$ 20,926	\$ (717)	\$ 20,209
Total assets	\$ 20,926	\$ (717)	\$ 20,209
<b>Liabilities:</b>			
Other payables	\$ 20,926	\$ (717)	\$ 20,209
Total liabilities	\$ 20,926	\$ (717)	\$ 20,209

See accompanying independent auditors' report.



**CAPITAL ASSETS USED IN THE OPERATION  
OF GOVERNMENTAL FUNDS**



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Capital Assets Used in the Operation of Governmental Funds

Comparative Schedule by Source

June 30, 2006 and 2005

(In thousands)

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Sites	\$ 2,105,429	\$ 1,805,711
Improvement of sites	386,968	345,725
Building and improvements	4,298,752	3,104,384
Equipment	1,124,779	1,094,832
Construction in progress	2,545,892	2,600,475
Total governmental funds capital assets	<u>\$ 10,461,820</u>	<u>\$ 8,951,127</u>
Investments in governmental funds capital assets by source:		
From revenues of:		
General Fund	\$ 1,255,790	\$ 1,214,863
Special revenue funds:		
Adult Education Fund	40,188	39,915
Cafeteria Fund	25,566	25,566
Child Development Fund	17,213	17,137
Deferred Maintenance Fund	10,686	9,622
Capital projects funds:		
Building fund	35,601	35,601
Building fund – Bond Proceeds	1,560,436	1,520,126
Building fund – Measure K	1,605,849	969,424
Building fund – Measure R	567,659	211,131
Building fund – Measure Y	20,367	—
State School Building Lease – Purchase Fund	1,027,568	1,022,969
Special reserve fund	1,189,097	1,097,098
Special reserve fund – FEMA – Earthquake	18,825	15,339
Special reserve fund – FEMA – Hazard Mitigation	8,106	8,045
Special reserve fund – CRA	636	—
Capital Facilities Fund	207,569	183,492
County school facilities fund	766,120	652,066
County school facilities – Prop 47 Fund	190,834	176,098
County school facilities – Prop 55 Fund	179,354	18,279
Investment in general fixed assets prior to July 1, 1983*	1,734,356	1,734,356
Total governmental funds capital assets	<u>\$ 10,461,820</u>	<u>\$ 8,951,127</u>

\* Data not available for fixed assets prior to July 1, 1983.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes in Capital Assets by Source  
Year ended June 30, 2006  
(In thousands)

	<u>Sites</u>	<u>Improvement of sites</u>	<u>Building and improvements</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Balances, July 1, 2005	\$ 1,805,711	\$ 345,725	\$ 3,104,384	\$ 1,094,832	\$ 2,600,475	\$ 8,951,127
Additions:						
Capital outlay from:						
General Fund	(2)	1,029	7,732	10,606	43,730	63,095
Adult Education Fund	—	17	127	115	14	273
Child Development Fund	—	7	59	—	10	76
Deferred Maintenance Fund	—	—	—	—	1,064	1,064
Building Fund – Bond Proceeds	(3,345)	—	—	—	43,655	40,310
Building Fund – Measure K	231,996	—	—	—	404,429	636,425
Building Fund – Measure R	55,153	—	—	—	301,375	356,528
Building Fund – Measure Y	1	—	—	—	20,366	20,367
State School Building Lease – Purchase Fund	1,250	—	—	—	3,349	4,599
Special reserve fund	10,599	56	403	5,264	75,677	91,999
Special reserve fund – FEMA – Earthquake	—	—	—	—	3,486	3,486
Special reserve fund – FEMA – Hazard Mitigation	—	—	—	—	61	61
Special reserve fund – CRA	—	—	—	—	636	636
Capital Facilities Fund	983	—	91	—	23,003	24,077
County school facilities fund	2,575	—	—	—	111,479	114,054
County school facilities – Prop 47 Fund	443	—	—	—	14,293	14,736
County school facilities – Prop 55 Fund	65	—	—	—	161,010	161,075
Completed projects	—	40,134	1,185,956	36,130	(1,262,220)	—
Total additions	<u>299,718</u>	<u>41,243</u>	<u>1,194,368</u>	<u>52,115</u>	<u>(54,583)</u>	<u>1,532,861</u>
Deductions:						
Vehicle disposal	—	—	—	1,261	—	1,261
Return to salvage	—	—	—	20,907	—	20,907
Total deductions	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,168</u>	<u>—</u>	<u>22,168</u>
Net increase	<u>299,718</u>	<u>41,243</u>	<u>1,194,368</u>	<u>29,947</u>	<u>(54,583)</u>	<u>1,510,693</u>
Balances, June 30, 2006	<u>\$ 2,105,429</u>	<u>\$ 386,968</u>	<u>\$ 4,298,752</u>	<u>\$ 1,124,779</u>	<u>\$ 2,545,892</u>	<u>\$ 10,461,820</u>

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of Changes in Long-Term Obligations

Year ended June 30, 2006

(In thousands)

	<u>General obligation bonds</u>	<u>State school building aid fund payable</u>	<u>Liability for compensated absences</u>	<u>Certificates of participation</u>	<u>Capital leases</u>	<u>Children centers facilities revolving loan</u>	<u>CA energy commission loan</u>	<u>Self-insurance claims</u>	<u>Total</u>
Balances, July 1, 2005	\$ 4,479,633	\$ 1,219	\$ 76,066	\$ 615,396	\$ 9,951	\$ 792	\$ 1,379	\$ 751,172	\$ 5,935,608
Additions:									
General obligation bonds	1,894,385	—	—	—	—	—	—	—	1,894,385
Unamortized premium on bonds	128,341	—	—	—	—	—	—	—	128,341
Amortization of FY 06 premium	(3,802)	—	—	—	—	—	—	—	(3,802)
Amortization of FY 05 premium	(5,781)	—	—	—	—	—	—	—	(5,781)
State School Building Aid Func	—	43	—	—	—	—	—	—	43
Earned vacation	—	—	85,099	—	—	—	—	—	85,099
Certificates of participation	—	—	—	10,000	—	—	—	—	10,000
Interest	—	—	—	3,007	—	—	—	—	3,007
Capital leases	—	—	—	—	1,318	—	—	—	1,318
CA energy commission loan	—	—	—	—	—	—	64	—	64
Self-insurance claims	—	—	—	—	—	—	—	358,162	358,162
Total additions	<u>2,013,143</u>	<u>43</u>	<u>85,099</u>	<u>13,007</u>	<u>1,318</u>	<u>—</u>	<u>64</u>	<u>358,162</u>	<u>2,470,836</u>
Deductions:									
General obligation bonds	692,880	—	—	—	—	—	—	—	692,880
Unamortized charges – bond refunding	38,886	—	—	—	—	—	—	—	38,886
Amortization of FY 06 bond refund charges	(16,672)	—	—	—	—	—	—	—	(16,672)
Amortization of FY 05 bond refund charges	(26,007)	—	—	—	—	—	—	—	(26,007)
State School Building Aid Fund									
Principal repayments	—	321	—	—	—	—	—	—	321
Interest payments	—	61	—	—	—	—	—	—	61
Vacation payments:									
Active employees	—	—	77,262	—	—	—	—	—	77,262
Retired employees	—	—	5,594	—	—	—	—	—	5,594
Certificates of participation	—	—	—	192,835	—	—	—	—	192,835
Interest	—	—	—	5,594	—	—	—	—	5,594
Capital leases	—	—	—	—	4,650	—	—	—	4,650
CA energy commission loan	—	—	—	—	—	—	200	—	200
Self-insurance claims	—	—	—	—	—	—	—	377,658	377,658
Total deductions	<u>689,087</u>	<u>382</u>	<u>82,856</u>	<u>198,429</u>	<u>4,650</u>	<u>—</u>	<u>200</u>	<u>377,658</u>	<u>1,353,262</u>
Balances, June 30, 2006	\$ <u>5,803,689</u>	\$ <u>880</u>	\$ <u>78,309</u>	\$ <u>429,974</u>	\$ <u>6,619</u>	\$ <u>792</u>	\$ <u>1,243</u>	\$ <u>731,676</u>	\$ <u>7,053,182</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of State School Building Aid Fund Payable

June 30, 2006

(In thousands)

Year	Interest rate	Balance July 1, 2005	Additions		Deductions		Balance June 30, 2006
			Interest charges	Principal in progress	Interest payments		
1984-1985	4.80%	\$ 25	\$ —	\$ 24	\$ 1	\$ —	
	5.30	34	—	32	2	—	
	5.60	4	—	4	—	—	
1986-1987	4.50	6	—	2	—	4	
	4.90	9	—	3	—	6	
	5.30	61	2	18	3	42	
	5.50	6	—	2	—	4	
	5.60	7	—	2	—	5	
1987-1988	4.50	41	1	9	2	31	
	4.80	78	3	17	4	60	
	5.30	792	31	174	40	609	
	5.50	50	2	11	3	38	
	5.60	106	4	23	6	81	
Total		\$ 1,219	\$ 43	\$ 321	\$ 61	\$ 880	

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of Certificates of Participation

Year ended June 30, 2006

(Dollars in thousands)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance original issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued this year</u>	<u>Redeemed current year</u>	<u>Accrued interest</u>	<u>Outstanding June 30, 2006</u>
1997 Certificates of participation (Vista Hermosa):								
12/01/97	Variable	12/01/05	\$ 4,000	\$ 4,224	\$ —	\$ 4,224	\$ —	\$ —
12/01/97	Variable	12/01/06	4,200	4,200	—	—	154	4,354
12/01/97	Variable	12/01/07	4,400	4,400	—	—	—	4,400
12/01/97	Variable	12/01/08	4,600	4,600	—	—	—	4,600
12/01/97	Variable	12/01/09	4,700	4,700	—	—	—	4,700
12/01/97	Variable	12/01/10	4,900	4,900	—	—	—	4,900
12/01/97	Variable	12/01/11	5,100	5,100	—	—	—	5,100
12/01/97	Variable	12/01/12	5,300	5,300	—	—	—	5,300
12/01/97	Variable	12/01/13	5,500	5,500	—	—	—	5,500
12/01/97	Variable	12/01/14	5,800	5,800	—	—	—	5,800
12/01/97	Variable	12/01/15	6,000	6,000	—	—	—	6,000
12/01/97	Variable	12/01/16	6,200	6,200	—	—	—	6,200
12/01/97	Variable	12/01/17	6,500	6,500	—	—	—	6,500
1997 Certificates of participation			\$ 67,200	\$ 67,424	\$ —	\$ 4,224	\$ 154	\$ 63,354
1998 Refunding certificates of participation (multiple properties project):								
06/01/98	5.000%	11/01/05	\$ 3,570	\$ 3,890	\$ —	\$ 3,890	\$ —	\$ —
06/01/98	5.000	11/01/06	3,750	3,750	—	—	294	4,044
06/01/98	5.250	11/01/07	3,935	3,935	—	—	—	3,935
06/01/98	5.250	11/01/08	4,140	4,140	—	—	—	4,140
06/01/98	4.650	11/01/09	4,355	4,355	—	—	—	4,355
06/01/98	4.750	11/01/10	4,560	4,560	—	—	—	4,560
06/01/98	4.850	11/01/11	4,775	4,775	—	—	—	4,775
06/01/98	5.000	11/01/12	5,010	5,010	—	—	—	5,010
06/01/98	5.000	11/01/13	5,260	5,260	—	—	—	5,260
1998 Refunding certificates of participation			\$ 39,355	\$ 39,675	\$ —	\$ 3,890	\$ 294	\$ 36,079
2000A Certificates of participation (qualified zone academy bonds project):								
5/23/2000	—%	5/23/2012	25,372	25,372	—	—	—	25,372
2000A Certificates of participation			\$ 25,372	\$ 25,372	\$ —	\$ —	\$ —	\$ 25,372
2000B Certificates of participation (multiple properties project):								
10/01/00	4.000%	10/01/05	\$ 2,325	\$ 2,496	\$ —	\$ 2,496	\$ —	\$ —
10/01/00	5.250	10/01/05	1,760	1,760	—	1,760	—	—
10/01/00	4.100	10/01/06	1,765	1,765	—	—	126	1,891
10/01/00	5.500	10/01/06	1,950	1,950	—	—	—	1,950
10/01/00	4.125	10/01/07	1,550	1,550	—	—	—	1,550
10/01/00	5.500	10/01/07	2,340	2,340	—	—	—	2,340
10/01/00	4.200	10/01/08	1,020	1,020	—	—	—	1,020
10/01/00	4.200	10/01/09	1,060	1,060	—	—	—	1,060
10/01/00	4.250	10/01/10	1,105	1,105	—	—	—	1,105
2000B Certificates of participation			\$ 14,875	\$ 15,046	\$ —	\$ 4,256	\$ 126	\$ 10,916

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of Certificates of Participation

Year ended June 30, 2006

(Dollars in thousands)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance original issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued this year</u>	<u>Redeemed current year</u>	<u>Accrued interest</u>	<u>Outstanding June 30, 2006</u>
2001B Certificates of participation (Beaudry):								
11/06/01	5.000%	10/01/24	\$ 6,810	\$ 7,679	\$ —	\$ 869	\$ 856	\$ 7,666
11/06/01	5.000	10/01/25	7,625	7,625	—	—	—	7,625
11/06/01	5.000	10/01/26	8,005	8,005	—	—	—	8,005
11/06/01	5.000	10/01/27	8,405	8,405	—	—	—	8,405
11/06/01	5.000	10/01/28	8,825	8,825	—	—	—	8,825
11/06/01	5.000	10/01/29	9,270	9,270	—	—	—	9,270
11/06/01	5.000	10/01/30	9,730	9,730	—	—	—	9,730
11/06/01	5.000	10/01/31	10,220	10,220	—	—	—	10,220
2001B Certificates of participation			\$ 68,890	\$ 69,759	\$ —	\$ 869	\$ 856	\$ 69,746
2002A Certificates of participation (Bravo refunding):								
03/06/02	5.000%	06/01/06	\$ 3,235	\$ 3,276	\$ —	\$ 3,276	\$ —	\$ —
03/06/02	5.000	06/01/07	3,395	3,395	—	—	29	3,424
03/06/02	5.000	06/01/08	3,570	3,570	—	—	—	3,570
2002A Certificates of participation			\$ 10,200	\$ 10,241	\$ —	\$ 3,276	\$ 29	\$ 6,994
2002B Certificates of participation (multiple properties project):								
12/04/02	5.000%	10/01/07	\$ 5,765	\$ 5,765	\$ —	\$ 5,765	\$ —	\$ —
12/04/02	3.000	10/01/08	7,645	7,645	—	7,645	—	—
12/04/02	5.000	10/01/08	2,385	2,385	—	2,385	—	—
12/04/02	3.500	10/01/09	10,380	10,380	—	10,380	—	—
12/04/02	4.000	10/01/10	2,885	2,885	—	2,885	—	—
12/04/02	5.000	10/01/10	4,430	4,430	—	4,430	—	—
12/04/02	4.000	10/01/11	1,255	1,255	—	1,255	—	—
12/04/02	5.000	10/01/11	6,400	6,400	—	6,400	—	—
12/04/02	4.000	10/01/12	935	935	—	935	—	—
12/04/02	5.000	10/01/12	7,090	7,090	—	7,090	—	—
12/04/02	4.000	10/01/13	625	625	—	625	—	—
12/04/02	4.200	10/01/14	650	650	—	650	—	—
12/04/02	5.000	10/01/15	675	675	—	675	—	—
12/04/02	5.000	10/01/16	710	710	—	710	—	—
12/04/02	5.000	10/01/17	745	745	—	745	—	—
12/04/02	5.000	10/01/18	780	780	—	780	—	—
12/04/02	5.000	10/01/19	820	820	—	820	—	—
12/04/02	5.000	10/01/20	860	860	—	860	—	—
12/04/02	5.000	10/01/21	905	905	—	905	—	—
12/04/02	5.000	10/01/22	950	950	—	950	—	—
2002B Certificates of participation			\$ 56,890	\$ 56,890	\$ —	\$ 56,890	\$ —	\$ —

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of Certificates of Participation

Year ended June 30, 2006

(Dollars in thousands)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance original issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued this year</u>	<u>Redeemed current year</u>	<u>Accrued interest</u>	<u>Outstanding June 30, 2006</u>
2002C Certificates of participation (Beaudry II):								
12/05/02	2.000%	10/01/05	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
12/05/02	2.250	10/01/06	200	301	—	101	101	301
12/05/02	3.000	10/01/07	205	205	—	—	—	205
12/05/02	3.000	10/01/08	210	210	—	—	—	210
12/05/02	3.300	10/01/09	220	220	—	—	—	220
12/05/02	3.750	10/01/10	225	225	—	—	—	225
12/05/02	4.000	10/01/11	235	235	—	—	—	235
12/05/02	4.000	10/01/12	245	245	—	—	—	245
12/05/02	4.000	10/01/13	255	255	—	—	—	255
12/05/02	4.125	10/01/14	265	265	—	—	—	265
12/05/02	4.250	10/01/15	275	275	—	—	—	275
12/05/02	4.380	10/01/16	285	285	—	—	—	285
12/05/02	4.500	10/01/17	300	300	—	—	—	300
12/05/02	4.500	10/01/18	310	310	—	—	—	310
12/05/02	4.750	10/01/19	325	325	—	—	—	325
12/05/02	4.750	10/01/20	340	340	—	—	—	340
12/05/02	4.750	10/01/21	360	360	—	—	—	360
12/05/02	4.750	10/01/22	375	375	—	—	—	375
12/05/02	4.750	10/01/23	395	395	—	—	—	395
12/05/02	5.000	10/01/24	410	410	—	—	—	410
12/05/02	5.000	10/01/25	430	430	—	—	—	430
12/05/02	5.000	10/01/26	455	455	—	—	—	455
12/05/02	5.000	10/01/27	475	475	—	—	—	475
12/05/02	5.000	10/01/28	500	500	—	—	—	500
12/05/02	5.000	10/01/29	525	525	—	—	—	525
12/05/02	5.000	10/01/30	550	550	—	—	—	550
12/05/02	5.000	10/01/31	580	580	—	—	—	580
2002C Certificates of participation (Beaudry II)			\$ 8,950	\$ 9,051	\$ —	\$ 101	\$ 101	\$ 9,051
2003A Certificates of participation (multiple properties project):								
06/11/03	5.000%	08/01/05	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
06/11/03	2.000	08/01/05	—	—	—	—	—	—
06/11/03	5.000	08/01/06	8,775	10,248	—	10,248	—	—
06/11/03	2.000	08/01/06	2,525	2,525	—	2,525	—	—
06/11/03	5.000	08/01/07	9,535	9,535	—	9,535	—	—
06/11/03	2.000	08/01/07	2,260	2,260	—	2,260	—	—
06/11/03	5.000	08/01/08	10,415	10,415	—	10,415	—	—
06/11/03	2.000	08/01/08	1,900	1,900	—	1,900	—	—
06/11/03	5.000	08/01/09	10,240	10,240	—	10,240	—	—
06/11/03	2.300	08/01/09	1,150	1,150	—	1,150	—	—
06/11/03	5.000	08/01/10	10,770	10,770	—	10,770	—	—
06/11/03	3.000	08/01/10	1,150	1,150	—	1,150	—	—
06/11/03	5.000	08/01/11	11,935	11,935	—	11,935	—	—
06/11/03	3.000	08/01/11	565	565	—	565	—	—
06/11/03	3.000	08/01/12	760	760	—	760	—	—
06/11/03	3.125	08/01/13	780	780	—	780	—	—
06/11/03	3.250	08/01/14	450	450	—	450	—	—
06/11/03	3.500	08/01/15	460	460	—	460	—	—
06/11/03	3.625	08/01/16	475	475	—	475	—	—
06/11/03	3.750	08/01/17	495	495	—	495	—	—
06/11/03	4.000	08/01/18	515	515	—	515	—	—
06/11/03	4.000	08/01/19	535	535	—	535	—	—
06/11/03	4.000	08/01/20	555	555	—	555	—	—
06/11/03	4.125	08/01/21	575	575	—	575	—	—
06/11/03	4.125	08/01/22	600	600	—	600	—	—
06/11/03	4.125	08/01/23	625	625	—	625	—	—
06/11/03	4.250	08/01/24	155	155	—	155	—	—
06/11/03	4.250	08/01/25	165	165	—	165	—	—
06/11/03	4.250	08/01/26	170	170	—	170	—	—
06/11/03	4.375	08/01/27	180	180	—	180	—	—
06/11/03	4.375	08/01/28	185	185	—	185	—	—
2003A Certificates of participation			\$ 78,900	\$ 80,373	\$ —	\$ 80,373	\$ —	\$ —

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

Schedule of Certificates of Participation

Year ended June 30, 2006

(Dollars in thousands)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance original issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued this year</u>	<u>Redeemed current year</u>	<u>Accrued interest</u>	<u>Outstanding June 30, 2006</u>
2003B Certificates of participation (Pico Rivera Warehouse):								
06/11/03	2.000%	08/01/05	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
06/11/03	2.000	08/01/06	870	1,405	—	535	540	1,410
06/11/03	2.000	08/01/07	885	885	—	—	—	885
06/11/03	2.000	08/01/08	905	905	—	—	—	905
06/11/03	2.250	08/01/09	920	920	—	—	—	920
06/11/03	3.000	08/01/10	940	940	—	—	—	940
06/11/03	3.000	08/01/11	970	970	—	—	—	970
06/11/03	3.000	08/01/12	1,000	1,000	—	—	—	1,000
06/11/03	3.125	08/01/13	1,030	1,030	—	—	—	1,030
06/11/03	3.250	08/01/14	1,060	1,060	—	—	—	1,060
06/11/03	5.000	08/01/15	1,095	1,095	—	—	—	1,095
06/11/03	5.000	08/01/16	1,150	1,150	—	—	—	1,150
06/11/03	5.000	08/01/17	1,210	1,210	—	—	—	1,210
06/11/03	5.000	08/01/18	1,270	1,270	—	—	—	1,270
06/11/03	5.000	08/01/19	1,335	1,335	—	—	—	1,335
06/11/03	5.000	08/01/20	1,400	1,400	—	—	—	1,400
06/11/03	5.000	08/01/21	1,470	1,470	—	—	—	1,470
06/11/03	5.000	08/01/22	1,540	1,540	—	—	—	1,540
06/11/03	5.000	08/01/23	1,620	1,620	—	—	—	1,620
06/11/03	5.000	08/01/24	1,700	1,700	—	—	—	1,700
06/11/03	5.000	08/01/25	1,785	1,785	—	—	—	1,785
06/11/03	5.000	08/01/26	1,875	1,875	—	—	—	1,875
06/11/03	5.000	08/01/27	1,970	1,970	—	—	—	1,970
06/11/03	5.000	08/01/28	2,065	2,065	—	—	—	2,065
2003B Certificates of participation			\$ 30,065	\$ 30,600	\$ —	\$ 535	\$ 540	\$ 30,605
2004A Certificates of participation (Refinancing project I):								
07/28/04	3.000%	10/01/08	\$ 765	\$ 1,248	\$ —	\$ 1,053	\$ 124	\$ 319
07/28/04	4.000	10/01/09	7,580	7,580	—	5,645	—	1,935
07/28/04	3.000	10/01/10	7,845	7,845	—	5,845	—	2,000
07/28/04	3.125	10/01/11	8,090	8,090	—	6,025	—	2,065
07/28/04	5.000	10/01/12	8,430	8,430	—	6,280	—	2,150
07/28/04	4.000	10/01/13	8,815	8,815	—	6,565	—	2,250
07/28/04	4.000	10/01/14	9,175	9,175	—	6,835	—	2,340
2004A Certificates of participation			\$ 50,700	\$ 51,183	\$ —	\$ 38,248	\$ 124	\$ 13,059
2004B Certificates of participation (refunding project I):								
07/28/04	4.250%	10/01/08	\$ 6,925	\$ 6,998	\$ —	\$ 5,073	\$ 20	\$ 1,945
2004B Certificates of participation			\$ 6,925	\$ 6,998	\$ —	\$ 5,073	\$ 20	\$ 1,945
2005A Certificates of participation (Beaudry I-2001C refunding):								
05/24/05	Variable	10/01/08	\$ 4,200	\$ 4,660	\$ —	\$ 460	\$ 259	\$ 4,459
05/24/05	Variable	10/01/09	4,330	4,330	—	—	—	4,330
05/24/05	Variable	10/01/10	4,475	4,475	—	—	—	4,475
05/24/05	Variable	10/01/11	4,620	4,620	—	—	—	4,620
05/24/05	Variable	10/01/12	4,770	4,770	—	—	—	4,770
05/24/05	Variable	10/01/13	4,925	4,925	—	—	—	4,925
05/24/05	Variable	10/01/14	5,085	5,085	—	—	—	5,085
05/24/05	Variable	10/01/15	5,250	5,250	—	—	—	5,250
05/24/05	Variable	10/01/16	5,425	5,425	—	—	—	5,425
05/24/05	Variable	10/01/17	5,600	5,600	—	—	—	5,600
05/24/05	Variable	10/01/18	5,785	5,785	—	—	—	5,785
05/24/05	Variable	10/01/19	5,970	5,970	—	—	—	5,970
05/24/05	Variable	10/01/20	6,165	6,165	—	—	—	6,165
05/24/05	Variable	10/01/21	6,365	6,365	—	—	—	6,365
05/24/05	Variable	10/01/22	6,575	6,575	—	—	—	6,575
05/24/05	Variable	10/01/23	6,785	6,785	—	—	—	6,785
05/24/05	Variable	10/01/24	200	200	—	—	—	200
2005A Certificates of participation			\$ 86,525	\$ 86,985	\$ —	\$ 460	\$ 259	\$ 86,784

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Long-Term Obligations

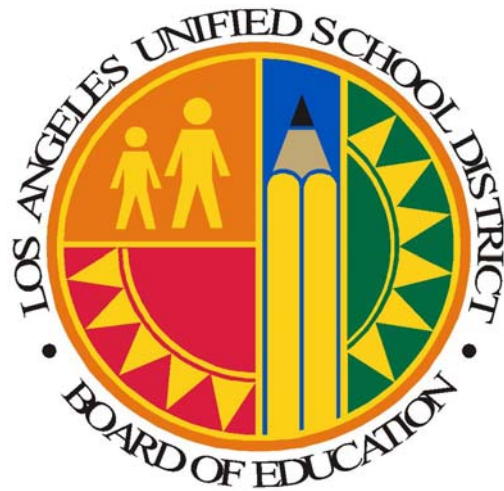
Schedule of Certificates of Participation

Year ended June 30, 2006

(Dollars in thousands)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance original issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued this year</u>	<u>Redeemed current year</u>	<u>Accrued interest</u>	<u>Outstanding June 30, 2006</u>
2005B Certificates of participation (Beaudry III):								
05/24/05	Variable	10/01/07	\$ 565	\$ 620	\$ —	\$ 55	\$ 64	\$ 629
05/24/05	Variable	10/01/08	585	585	—	—	—	585
05/24/05	Variable	10/01/09	605	605	—	—	—	605
05/24/05	Variable	10/01/10	625	625	—	—	—	625
05/24/05	Variable	10/01/11	645	645	—	—	—	645
05/24/05	Variable	10/01/12	665	665	—	—	—	665
05/24/05	Variable	10/01/13	685	685	—	—	—	685
05/24/05	Variable	10/01/14	710	710	—	—	—	710
05/24/05	Variable	10/01/15	730	730	—	—	—	730
05/24/05	Variable	10/01/16	755	755	—	—	—	755
05/24/05	Variable	10/01/17	780	780	—	—	—	780
05/24/05	Variable	10/01/18	805	805	—	—	—	805
05/24/05	Variable	10/01/19	830	830	—	—	—	830
05/24/05	Variable	10/01/20	860	860	—	—	—	860
05/24/05	Variable	10/01/21	885	885	—	—	—	885
05/24/05	Variable	10/01/22	915	915	—	—	—	915
05/24/05	Variable	10/01/23	945	945	—	—	—	945
05/24/05	Variable	10/01/24	975	975	—	—	—	975
05/24/05	Variable	10/01/25	1,005	1,005	—	—	—	1,005
05/24/05	Variable	10/01/26	1,040	1,040	—	—	—	1,040
05/24/05	Variable	10/01/27	1,075	1,075	—	—	—	1,075
05/24/05	Variable	10/01/28	1,110	1,110	—	—	—	1,110
05/24/05	Variable	10/01/29	1,145	1,145	—	—	—	1,145
05/24/05	Variable	10/01/30	1,180	1,180	—	—	—	1,180
05/24/05	Variable	10/01/31	1,220	1,220	—	—	—	1,220
2005B Certificates of participation			\$ 21,340	\$ 21,395	\$ —	\$ 55	\$ 64	\$ 21,404
2005C Certificates of participation (ELA/King Drew-1996A refunding):								
05/24/05	Variable	10/01/13	\$ 2,785	\$ 2,964	\$ —	\$ 179	\$ 440	\$ 3,225
05/24/05	Variable	10/01/14	2,875	2,875	—	—	—	2,875
05/24/05	Variable	10/01/15	2,970	2,970	—	—	—	2,970
05/24/05	Variable	10/01/16	3,065	3,065	—	—	—	3,065
05/24/05	Variable	10/01/17	3,170	3,170	—	—	—	3,170
05/24/05	Variable	10/01/18	3,270	3,270	—	—	—	3,270
05/24/05	Variable	10/01/19	3,380	3,380	—	—	—	3,380
05/24/05	Variable	10/01/20	3,490	3,490	—	—	—	3,490
05/24/05	Variable	10/01/21	3,600	3,600	—	—	—	3,600
05/24/05	Variable	10/01/22	3,720	3,720	—	—	—	3,720
05/24/05	Variable	10/01/23	3,840	3,840	—	—	—	3,840
05/24/05	Variable	10/01/24	3,965	3,965	—	—	—	3,965
05/24/05	Variable	10/01/25	4,095	4,095	—	—	—	4,095
2005C Certificates of participation			\$ 44,225	\$ 44,404	\$ —	\$ 179	\$ 440	\$ 44,665
2005 Certificates of participation (2004-05 qualified zone academy bonds project):								
12/01/05	—%	12/13/20	\$ —	\$ —	\$ 10,000	\$ —	\$ —	\$ 10,000
2005 Certificates of participation			\$ —	\$ —	\$ 10,000	\$ —	\$ —	\$ 10,000
Grand Total			\$ 610,412	\$ 615,396	\$ 10,000	\$ 198,429	\$ 3,007	\$ 429,974

See accompanying independent auditors' report.

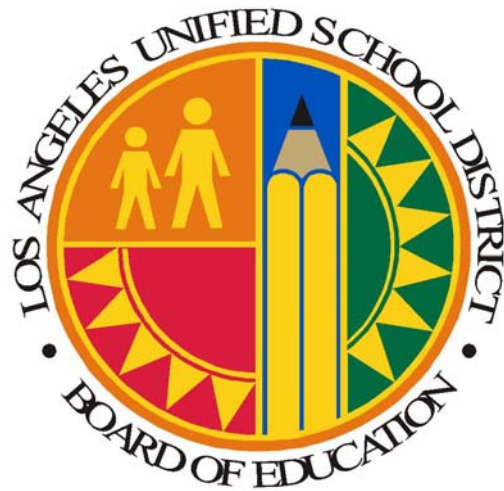




**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Supplementary Information

Financial information hereinafter is presented for purposes of additional analysis and is not a required part of the combined and combining financial statements of the Los Angeles Unified School District. Data presented are not considered necessary for fair presentation in conformity with U.S. generally accepted accounting principles.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

General Fund

Schedule of Principal Apportionment Revenue From the State School Fund

Year ended June 30, 2006

Base revenue limit per A.D.A.						
Base revenue limit (PY)					\$	4,968.66
Inflation increase						<u>211.00</u>
Total base revenue limit per A.D.A.					\$	<u>5,179.66</u>
Total state revenue limit:						
Base revenue limit	\$	5,179.66	x	660,696.63	*	\$ 3,422,183,906
Meals for needy		0.1795	x	94,489,611	Meals Served	16,960,885
Beginning teachers salary incentive funding						11,698,572
Unemployment insurance revenue						18,511,595
Summer school core academic programs	\$	3.68	x	1,215,633	Hours	4,473,529
California high school exit exam		3.68	x	12,846,266	Hours	47,274,259
Pupil promotion and retention and low star score		3.68	x	6,929,270	Hours	25,499,714
Apprentice allowance		4.86	x	610,013	Hours	2,964,663
Community day schools additional funding						4,294,543
Transfer of special education sdc revenues to county offices	\$	4,899.06	x	0.63	A.D.A. **	(3,086)
Transfer of county community school revenues to county offices		5,133.46	x	182.20	A.D.A. **	(935,316)
Pers reduction (including safety adjustment)						<u>(18,405,118)</u>
Total K-12 revenue limit						3,534,518,146
Property taxes and other local revenues						(777,569,515)
Charter schools in-lieu of taxes						40,896,584
Fiscally affiliated charter schools general purpose block grant						(30,375,922)
Fiscally independent charter schools differential						<u>(4,120,425)</u>
Total K-12 state aid entitlement						2,763,348,868
State school deficit						<u>(30,781,522)</u>
2004-2005 Net state aid K-12 revenue limit						2,732,567,346
Prior year adjustments						<u>7,004,636</u>
Total state aid K-12 revenue limit						2,739,571,982
Adult education revenue limit:						
Current year apportionment	\$	2,389.22	x	69,089.26	A.D.A.***	165,069,442
Prior year adjustments						<u>826,888</u>
Principal apportionment – K-12 and adult education:						2,905,468,312
Principal apportionment – other state revenues:						
ROC/P Entitlement:						
Base	\$	2,973.40	x	13,963.86	A.D.A	41,520,141
Growth		3,121.18	x	—	A.D.A	—
CalWORKS		2,973.40	x	431.04	A.D.A	1,281,654
Handicapped						2,183,979
Prior year adjustments						3,570,239
Special education:						
Instructional entitlement						313,893,558
Special disabilities adjustment						25,596,928
Regionalized services/program specialists						9,538,735
Out of home care & mental health						20,629,396
Low incidence						1,795,439
Infant apportionment						2,716,867
Prior year adjustments						977,112
Gifted and talented:						
Current year						5,573,983
Prior year adjustments						<u>980</u>
Total principal apportionment from the state school fund						3,334,747,323
Adult education portion						<u>(165,896,330)</u>
General fund portion						3,168,850,993
Pers reduction						<u>18,405,118</u>
Total principal apportionment revenue, general fund	\$					<u>3,187,256,111</u>

\* Consists of K-12 (628,076.66), Special Education (32,437.14), and County ADA: Community (182.20) and SDC (0.63).

\*\* Deficit rates applied is 0.892% on 100%.

\*\*\* Consists of Funded Annual Regular and Growth A.D.A.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

General Fund

Schedule of Appropriations, Expenditures and Other Uses, and Unexpended Balances  
by District Defined Program

Year ended June 30, 2006

(In thousands)

	<u>Appropriations</u>	<u>Expenditures and other uses</u>	<u>Unexpended balances</u>
Regular program:			
General Program – Schools	\$ 2,939,630	\$ 2,829,572	\$ 110,058
General Program – Support Services	332,467	288,215	44,252
General Program – Hourly Intervention/ remediation	75,186	74,321	865
General Program – Interfund Transfers	43,101	42,712	389
General Program – Options Programs	74,486	71,129	3,357
Special Education – Schools	1,224,602	1,148,016	76,586
Special Education – Support Services	78,638	110,009	(31,371)
Special Education – Extended Session	26,244	23,586	2,658
Student Integration – Schools	477,152	472,230	4,922
Student Integration – Support Services	47,346	39,152	8,194
Roc/skill Centers – Schools	72,598	58,372	14,226
Roc/skill Centers – Support Services	6,014	6,595	(581)
Routine Repair & Gen Maintenance – Schools	185,169	157,211	27,958
Routine Repair & Gen Maintenance – Support Services	15,161	22,002	(6,841)
Community Services	20,529	20,178	351
Reserves and Resources Allocations	67,749	25	67,724
Total regular program	<u>5,686,072</u>	<u>5,363,325</u>	<u>322,747</u>
Specially funded programs	<u>1,423,702</u>	<u>1,117,181</u>	<u>306,521</u>
Total General Fund	<u>\$ 7,109,774</u>	<u>\$ 6,480,506</u>	<u>\$ 629,268</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

General Fund

Expenditures and Other Uses by Goal and Function

Year ended June 30, 2006

(In thousands)

Instruction	\$ <u>5,218,594</u>
Support services:	
Supervision of instruction	55,430
Library, media, technology, and other instructional resources	6,374
School administration	248,381
Pupil support services	72,323
Pupil transportation	5,483
Data processing services	80,951
Plant maintenance and operations	403,958
Facilities rents and leases	24,843
Central administration	145,452
	<u>1,043,195</u>
Other goals:	
Community services	27,164
Child care and development services	1,146
Food services	1,354
	<u>29,664</u>
Facilities acquisition and construction	<u>44,572</u>
Other outgo:	
Debt service	5,497
All other outgo	138,984
	<u>144,481</u>
Total expenditures and other uses	\$ <u><u>6,480,506</u></u>

Source: Program cost report, 2005-2006

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

General Fund

Schedule of Current Expense of Education

Year ended June 30, 2006

(In thousands)

	<b>Total expense for the year</b>	<b>Excluded amounts*</b>	<b>Current expense of education</b>	<b>Current expense of education per unit of A.D.A.**</b>
Certificated salaries	\$ 3,050,961	\$ 101,153	\$ 2,949,808	\$ 4,505.46
Classified salaries	897,902	109,268	788,634	1,204.54
Employee benefits (excluding PERS reduction)	1,279,748	254,557	1,025,191	1,565.85
Books, supplies, and equipment replacement	436,496	136,857	299,639	457.66
Services & operating expense and direct support	609,597	250,877	358,720	547.90
<b>Total</b>	<b>\$ 6,274,704</b>	<b>\$ 852,712</b>	<b>\$ 5,421,992</b>	<b>\$ 8,281.41</b>

\* Excluded amounts relate to:

Community Services	\$ 26,998
Facilities Acquisition & Construction	26,300
Food Services	613
Fringe Benefits to Retirees	190,938
Nonagency	25,992
CA State Lottery	92,934
IASA	11,799
NCLB: Part A, Part B, & Part D	46,418
Alternative Certification Program for Intern Teachers	2,344
National Board Certification Teacher Incentive	2,805
Cal Public School Library Act of 1998	3,721
Lottery: Instructional Material	21,827
School Community Policing Partnerships	1,346
Regional Occupational Center/Program	217
School Safety & Violence Prevention Gr 8-12	9,308
Instructional Materials Block Grant	61,406
Instructional Materials: English Language Learners	5,435
Instructional Materials – Williams Case	4,784
Immediate Intervention/Underperforming School	5,968
CAL Peer Assistance & Review Program for Teachers	1,678
Principal's Training Program	1,655
Pupil Transportation	157,861
Special Education: Nonpublic Agencies/Schools	149,950
Other Expenses	415
<b>Total</b>	<b>\$ 852,712</b>

\*\* Revenue limit A.D.A. (Average daily attendance) used is 654,718.73.

Note: Computation of current expense of education was prepared according to state guidelines.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

General Fund

Schedule of Special Purpose Revenues, Expenditures, and Restricted Balances

Year ended June 30, 2006

(In thousands)

	<b>Balances July 1, 2005</b>	<b>Adjustments</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Balances June 30, 2006</b>
Medi-Cal Billing Options	\$ 5,352	\$ —	\$ 7,338	\$ 9,703	\$ 2,987
COPS MORE Program	35	—	—	—	35
Cal-Safe Supportive Services	163	—	530	245	448
Class Size Reduction – Facilities	2,153	—	—	2,153	—
School Facilities Needs Assessment Program	4,934	—	—	3,713	1,221
Certificated Staff Performance Incentive Bonus	173	—	—	—	173
English Language Acquisition Program,					
Teacher Training & Student Assistance	5,717	—	11,868	4,893	12,692
Calif. Public School Library Act of 1998	3,810	—	—	3,722	88
Lottery Instructional Material	6,511	—	22,639	21,827	7,323
ROC/P Apportionment	—	4,475	60,126	62,535	2,066
Pupils with Disabilities Attending ROC/P	—	—	2,715	2,432	283
School Safety & Violence Prevention	2,781	—	8,828	9,598	2,011
Special Education	2,240	533,064	556,691	1,090,331	1,664
Gifted & Talented Education	504	161	5,575	6,240	—
Instructional Materials Block Grant	5,491	16,605	42,121	64,217	—
Instructional Materials English Learner	6,000	—	72	5,436	636
Instructional Materials API Deciles 1 & 2	9,992	—	1,003	5,395	5,600
Transportation Home to School	—	(5,179)	40,727	27,867	7,681
California Peer Assistance & Review Program	2,756	—	2,993	1,701	4,048
Staff Development Reading & Math	4,924	—	4,407	8,579	752
Principals' Training	1,921	—	2,411	1,682	2,650
Tenth Grade Counseling	578	—	—	258	320
Pupil Retention Block Grant	—	—	4,809	3,002	1,807
Targeted Instructional Improvement Block Grant	—	(1,403)	521,987	510,736	9,848
School & Library Improvement Block Grant	—	—	9,088	—	9,088
Routine Repair & General Maintenance	—	169,780	2,000	149,213	22,567
California Energy Commission Loan Expenditures	339	37	63	38	401
Certificates of Participation: (Acquisition Accounts) – Proceeds	3,045	6,217	3,412	4,356	8,318
Specialty Funded Programs	1,053	—	1,140,472	1,117,181	24,344
<b>Totals</b>	<b>\$ 70,472</b>	<b>\$ 723,757</b>	<b>\$ 2,451,875</b>	<b>\$ 3,117,053</b>	<b>\$ 129,051</b>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Adult Education Fund

Schedule of Revenues and Other Sources, Expenditures, and Other Uses  
by Function, and Changes in Fund Balance

Year ended June 30, 2006

(In thousands)

Revenues and other sources:	
Revenue limit sources	\$ 155,296
Federal revenues	18,970
Other state revenues	11,453
Other local revenues	2,051
	<hr/>
Total revenues and other sources	187,770
	<hr/>
Expenditures and other uses:	
Instruction	108,151
Supervision of Instruction	21,922
School Administration	19,039
Guidance & Counseling Services	6,466
Other Pupil Services	1
General administration cost	6,546
Plant maintenance and operations	10,822
Facilities acquisition & construction	299
Facilities rents and leases	2,434
	<hr/>
Total expenditures and other uses	175,680
	<hr/>
Excess of revenues and other sources over expenditures and other uses	12,090
Fund balance, July 1, 2005	<hr/> 6,991
Fund balance, June 30, 2006	\$ <hr/> <hr/> 19,081

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Child Development Fund

Schedule of Revenues and Other Sources, Expenditures, and Other Uses  
by Function, and Changes in Fund Balance

Year ended June 30, 2006

(In thousands)

Revenues and other sources:	
Federal revenues	\$ 15,356
Other state revenues	80,819
Other local revenues	6,997
Operating transfers in	8,764
	<hr/>
Total revenues and other sources	111,936
	<hr/>
Expenditures and other uses:	
Instruction	76,332
Supervision of instruction	10,961
School Administration	12,000
Guidance & Counseling Services	47
Health Services	984
Community Services	5
Other General Administration	702
Plant maintenance & operations	6,226
Facilities acquisition & construction	79
Facilities rents and leases	160
Interfund transfers	2,000
	<hr/>
Total expenditures and other uses	109,496
	<hr/>
Excess of revenues and other sources over expenditures and other uses	2,440
Fund balance, July 1, 2005	<hr/> 3,762
Fund balance, June 30, 2006	\$ <hr/> <hr/> 6,202

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

All Funds

Schedule of Fund Equity

June 30, 2006

(In thousands)

	<b>General Fund</b>	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Child Development Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Capital Services Fund</b>	<b>Building Fund</b>	<b>Building Account - Bond Proceeds</b>	<b>Building Account - Measure K</b>	<b>Building Account - Measure R</b>	<b>Building Account - Measure Y</b>
Reserved for:													
Revolving and imprest funds	\$ 2,759	\$ 132	\$ —	\$ 55	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,000	\$ —	\$ 300	\$ —
Inventories	7,588	64	7,562	54	—	—	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	282,984	81	19,417	—	—	—	—	—
Prepays	5,274	—	—	—	—	—	—	—	—	—	—	—	—
General reserve	1	—	—	—	—	—	—	—	—	—	—	—	—
Participants' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
Other restricted balances (detail on page 111)	129,051	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total reserved fund equity</b>	<b>144,673</b>	<b>196</b>	<b>7,562</b>	<b>109</b>	<b>—</b>	<b>282,984</b>	<b>81</b>	<b>19,417</b>	<b>—</b>	<b>3,000</b>	<b>—</b>	<b>300</b>	<b>—</b>
Unreserved:													
Designated for:													
Subsequent year expenditures	141,091	10,291	51,015	6,093	110,595	—	—	—	1,962	213,499	372,896	342,226	168,238
Economic uncertainties	67,638	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total designated</b>	<b>208,729</b>	<b>10,291</b>	<b>51,015</b>	<b>6,093</b>	<b>110,595</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,962</b>	<b>213,499</b>	<b>372,896</b>	<b>342,226</b>	<b>168,238</b>
Undesignated fund equity	81,110	8,594	590	—	—	—	—	—	—	—	—	—	—
<b>Total unreserved fund equity</b>	<b>289,839</b>	<b>18,885</b>	<b>51,605</b>	<b>6,093</b>	<b>110,595</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,962</b>	<b>213,499</b>	<b>372,896</b>	<b>342,226</b>	<b>168,238</b>
<b>Total fund equity</b>	<b>\$ 434,512</b>	<b>\$ 19,081</b>	<b>\$ 59,167</b>	<b>\$ 6,202</b>	<b>\$ 110,595</b>	<b>\$ 282,984</b>	<b>\$ 81</b>	<b>\$ 19,417</b>	<b>\$ 1,962</b>	<b>\$ 216,499</b>	<b>\$ 372,896</b>	<b>\$ 342,526</b>	<b>\$ 168,238</b>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds  
Schedule of Fund Equity (Continued)

June 30, 2006

(In thousands)

	State School Building Lease - Purchase Fund	Special Reserve Fund	Special Reserve Fund - FEMA- Earthquake	Special Reserve Fund - FEMA- Hazard Mitigation	Special Reserve Fund - Community Redevelopment Agency	Capital Facilities Account Fund	County School Facilities Fund	County School Facilities Fund - Prop 47	County School Facilities Fund - Prop 55	Health and Welfare Benefits Fund	Workers' Compensation Self - Insurance Fund	Liability Self - Insurance Fund	Annuity Reserve Fund
Reserved for:													
Revolving and imprest funds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,000	\$ 500	\$ —
Inventories	—	—	—	—	—	—	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—	—	—	—	—	—	—
Prepays	—	—	—	—	—	—	—	—	—	10,946	—	5,038	—
General reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
Participants' equity	—	—	—	—	—	—	—	—	—	—	—	—	451
Other restricted balances (detail on page 111)	—	—	—	—	—	—	—	—	—	—	—	—	—
Total reserved fund equity	—	—	—	—	—	—	—	—	—	10,946	2,000	5,538	451
Designated for:													
Subsequent year expenditures	5,367	227,996	2,366	—	11,749	176,886	66,638	54,968	223,316	—	—	—	—
Economic uncertainties	—	—	—	—	—	—	—	—	—	—	—	—	—
Total designated	5,367	227,996	2,366	—	11,749	176,886	66,638	54,968	223,316	—	—	—	—
Undesignated fund equity	—	—	—	1,793	—	—	—	—	—	422	(182,941)	—	—
Total unreserved fund equity	5,367	227,996	2,366	1,793	11,749	176,886	66,638	54,968	223,316	422	(182,941)	—	—
Total fund equity	\$ 5,367	\$ 227,996	\$ 2,366	\$ 1,793	\$ 11,749	\$ 176,886	\$ 66,638	\$ 54,968	\$ 223,316	\$ 11,368	\$ (180,941)	\$ 5,538	\$ 451

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds

Schedule of Revenues and Other Financing Sources

Year ended June 30, 2006

(In thousands)

SACS Object Code	General Fund	Special Revenue Funds					Total	Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non expendable Trust Funds	Total
		Adult Education	Cafeteria	Child Development	Deferred Maintenance								
Revenue limit sources:													
Principal apportionment													
State aid – current year	8011	\$ 2,732,567	\$ 165,069	\$ —	\$ —	\$ —	\$ 165,069	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,897,636
Charter school gen purpose entitlement – state aid	8015	23,157	—	—	—	—	—	—	—	—	—	—	23,157
State aid – prior years	8019	7,004	827	—	—	—	827	—	—	—	—	—	7,831
Revenue limit transfers													
PERS Reduction transfer	8092	18,405	—	—	—	—	—	—	—	—	—	—	18,405
ROC Subsidy Transfers from Adult Education	8099	10,600	(10,600)	—	—	—	(10,600)	—	—	—	—	—	—
Principal apportionment net of transfers		2,791,733	155,296	—	—	—	155,296	—	—	—	—	—	2,947,029
Tax relief subventions:													
Homeowners' exemptions	8021	7,386	—	—	—	—	—	—	—	—	—	—	7,386
Other subventions/in-lieu of taxes:	8029	6,574	—	—	—	—	—	—	—	—	—	—	6,574
County & district taxes													
Secured roll taxes	8041	588,360	—	—	—	—	—	—	—	—	—	—	588,360
Unsecured roll taxes	8042	29,564	—	—	—	—	—	—	—	—	—	—	29,564
Prior years' taxes	8043	16,044	—	—	—	—	—	—	—	—	—	—	16,044
Supplemental taxes	8044	38,821	—	—	—	—	—	—	—	—	—	—	38,821
Education Revenue Augmentation Fund (ERAF)	8045	76,068	—	—	—	—	—	—	—	—	—	—	76,068
Community Redevelopment Fund:	8047	557	—	—	—	—	—	—	—	—	—	—	557
Penalties/Int. – Delinquent Revenue Limit Tax	8048	14,190	—	—	—	—	—	—	—	—	—	—	14,190
Miscellaneous Funds (EC 41604):													
Royalties and bonuses	8081	11	—	—	—	—	—	—	—	—	—	—	11
Less nonrevenue limit (50%) adjustment	8089	(5)	—	—	—	—	—	—	—	—	—	—	(5)
Local revenue limit sources		777,570	—	—	—	—	—	—	—	—	—	—	777,570
Total revenue limit sources		3,569,303	155,296	—	—	—	155,296	—	—	—	—	—	3,724,599
Federal revenues:													
Special education entitlement per UDC	8181	121,625	—	—	—	—	—	—	—	—	—	—	121,625
Discretionary grants	8182	19,087	—	—	—	—	—	—	—	—	—	—	19,087
Child nutrition program	8220	—	—	205,738	—	—	205,738	—	—	—	—	—	205,738
Vocational and Applied Technology Education	8240	8,840	4,997	—	—	—	4,997	—	—	—	—	—	13,837
Forest Reserve Funds	8260	27	—	—	—	—	—	—	—	—	—	—	27
FEMA	8281	20	—	—	—	—	—	4,631	—	—	—	—	4,651
Adult Ed ESL	8290	—	12,526	—	—	—	12,526	—	—	—	—	—	12,526
Bilingual Ed discretionary grants	8290	3,125	—	—	—	—	—	—	—	—	—	—	3,125
Federal child care, center-based	8290	—	—	15,150	—	—	15,150	—	—	—	—	—	15,150
Child Nutrition: Nutrition Education	8290	5,230	—	—	—	—	—	—	—	—	—	—	5,230
Donated commodities	8290	—	—	10,995	—	—	10,995	—	—	—	—	—	10,995
NCLB/LASA	8290	696,576	—	—	—	—	—	—	—	—	—	—	696,576
JTPA – excess authority	8290	1,469	—	—	—	—	—	—	—	—	—	—	1,469
Medical billing option	8290	7,338	—	—	—	—	—	—	—	—	—	—	7,338
Workforce Investment Act (WIA)	8290	—	1	—	—	—	1	—	—	—	—	—	1
Other federal revenues	8290	26,186	1,446	—	206	—	1,652	4,847	—	—	—	—	32,685
Total federal revenues		\$ 889,523	\$ 18,970	\$ 216,733	\$ 15,356	\$ —	\$ 251,059	\$ 9,478	\$ —	\$ —	\$ —	\$ —	\$ 1,150,060

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds

Schedule of Revenues and Other Financing Sources

Year ended June 30, 2006

(In thousands)

SACS Object Code	General Fund	Special Revenue Funds					Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non expendable Trust Funds	Total
		Adult Education	Cafeteria	Child Development	Deferred Maintenance	Total						
Other state revenues:												
Principal apportionment												
ROC/P entitlement:												
Current year	8311	\$ 44,986	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 44,986
Prior years	8319	3,570	—	—	—	—	—	—	—	—	—	3,570
Spec. Ed. Master Plan:												
Current year	8311	374,171	—	—	—	—	—	—	—	—	—	374,171
Prior years	8319	977	—	—	—	—	—	—	—	—	—	977
Gifted and talented pupils												
Current year	8311	5,574	—	—	—	—	—	—	—	—	—	5,574
Prior years	8319	1	—	—	—	—	—	—	—	—	—	1
Special purpose apportionment												
Home-to-School Transportation	8311	40,727	—	—	—	—	—	—	—	—	—	40,727
School improvement program	8311	21,999	—	—	—	—	—	—	—	—	—	21,999
Economic Impact Aid	8311	139,546	—	—	—	—	—	—	—	—	—	139,546
Special Ed Transportator	8311	45,229	—	—	—	—	—	—	—	—	—	45,229
Special instructional allowances												
Year round school incentiv	8425	87,279	—	—	—	—	—	—	—	—	—	87,279
Class Size Reduction Grades K-3	8434	195,571	—	—	—	—	—	—	—	—	—	195,571
Class Size Reduction Grades 9-12	8435	14,464	—	—	—	—	—	—	—	—	—	14,464
Charter school categorical block gran	8480	1,964	—	—	—	—	—	—	—	—	—	1,964
Other state revenues:												
Child nutrition program	8520	—	—	14,946	—	14,946	—	—	—	—	—	14,946
Children centers apportionmen	8530	—	—	70,134	—	70,134	—	—	—	—	—	70,134
Deferred maintenance allowanc	8540	—	—	—	30,661	30,661	—	—	—	—	—	30,661
School facilities apportionmen	8545	—	—	—	—	—	—	360,925	—	—	—	360,925
Mandated costs reimbursements	8550	2,518	—	—	—	—	—	—	—	—	—	2,518
State lottery revenue	8560	119,066	—	—	—	—	—	—	—	—	—	119,066
Tax relief subventions – restricted levies												
Homeowners' exemptions	8571	—	—	—	—	—	2,678	—	—	—	—	2,678
Other subv./in lieu of taxes	8572	—	—	—	—	—	4	—	—	—	—	4
Instructional material block grant (IMA	8590	41,711	—	—	—	—	—	—	—	—	—	41,711
Instructional material block grant (API Deciles 1&2	8590	699	—	—	—	—	—	—	—	—	—	699
Instructional material block grant (English learners	8590	72	—	—	—	—	—	—	—	—	—	72
Math & Reading Professional Developmen	8590	4,407	—	—	—	—	—	—	—	—	—	4,407
CalWORKs	8590	10,303	—	—	—	—	—	—	—	—	—	10,303
Community-based english tutoring	8590	—	8,736	—	—	8,736	—	—	—	—	—	8,736
Beginning teacher support and assessmen	8590	3,725	—	—	—	—	—	—	—	—	—	3,725
English language learner	8590	11,868	—	—	—	—	—	—	—	—	—	11,868
School Safety & Violence Prevention Gr 8-1:	8590	8,828	—	—	—	—	—	—	—	—	—	8,828
Special education												
California High School Exit Exan	8590	5,136	—	—	—	—	—	—	—	—	—	5,136
Mental health	8590	3,204	—	—	—	—	—	—	—	—	—	3,204
High priority schools gran	8590	57,435	—	—	—	—	—	—	—	—	—	57,435
California peer assistance & review	8590	2,993	—	—	—	—	—	—	—	—	—	2,993
After school learning & safe neighborhoo	8590	19,615	—	—	—	—	—	—	—	—	—	19,615
Targeted instructional improvement program	8590	520,178	—	—	—	—	—	—	—	—	—	520,178
Pupil retention Blk grant-AB82	8590	4,809	—	—	—	—	—	—	—	—	—	4,809
Teacher credentialing Blk gran	8590	7,237	—	—	—	—	—	—	—	—	—	7,237
Professional development block grant AB82:	8590	26,482	—	—	—	—	—	—	—	—	—	26,482
School and library improvement block gran	8590	49,723	—	—	—	—	—	—	—	—	—	49,723
Immediate intervention/underperforming school	8590	6,251	—	—	—	—	—	—	—	—	—	6,251
State preschool	8590	—	—	9,905	—	9,905	—	—	—	—	—	9,905
All other state revenues	8590	32,792	2,717	—	780	3,497	—	2,816	—	—	—	39,105
Total other state revenues		\$ 1,915,110	\$ 11,453	\$ 14,946	\$ 80,819	\$ 30,661	\$ 137,879	\$ 2,682	\$ 363,741	\$ —	\$ —	\$ 2,419,412

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

All Funds

Schedule of Revenues and Other Financing Sources

Year ended June 30, 2006

(In thousands)

SACS Object Code	General Fund	Special Revenue Funds					Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non expendable Trust Funds	Total	
		Adult Education	Cafeteria	Child Development	Deferred Maintenance	Total							
Other local revenues:													
County and district taxes													
Other restricted & voted indebtedness levies													
Secured roll	8611	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 254,594	\$ —	\$ —	\$ —	\$ —	\$ 254,594	
Unsecured roll	8612	—	—	—	—	—	16,665	—	—	—	—	16,665	
Prior years' taxes	8613	—	—	—	—	—	14,919	—	—	—	—	14,919	
Supplemental taxes	8614	—	—	—	—	—	22,281	—	—	—	—	22,281	
Community redevelopment funds not													
Subject to revenue limit deduction	8625	—	—	—	—	—	—	1,713	—	—	—	1,713	
Penalty & interest on delinquent non revenue tax	8629	—	—	—	—	—	1,728	—	—	—	—	1,728	
Sales:													
Sale of equipment/supplies	8631	402	—	—	—	—	—	—	—	—	—	402	
Food service sales	8634	—	—	20,134	—	—	20,134	—	—	—	—	20,134	
Leases and rentals	8650	4,078	—	—	—	—	—	76	—	—	—	4,154	
Interest on deposit	8660	35,840	1,303	678	—	2,825	4,806	5,048	51,367	52,632	21,874	85	171,652
Net increase (decrease) on the fair value of investment	8662	—	—	—	—	—	—	(8)	—	—	—	—	(8)
Fees and contracts:													
Adult education fees	8671	—	573	—	—	—	573	—	—	—	—	—	573
Nonresident students	8672	80	—	—	—	—	—	—	—	—	—	—	80
Child development parent fee:	8673	—	—	—	1,645	—	1,645	—	—	—	—	—	1,645
In-district premiums/contribution:	8674	—	—	—	—	—	—	—	—	912,296	—	—	912,296
Mitigation/developer fee:	8681	—	—	—	—	—	—	85,122	—	—	—	—	85,122
All other fees and contracts	8689	6,689	—	—	—	—	—	—	—	39	—	—	6,728
Other local revenues													
Misc funds nonrev limit (50%) adjustment:	8691	5	—	—	—	—	—	—	—	—	—	—	5
All other local revenue:	8699	43,034	175	16	5,352	—	5,543	1,028	—	—	—	—	49,605
Charter schools funding in-lieu of property tax	8780	7,947	—	—	—	—	—	—	—	—	—	—	7,947
Total other local revenues		<u>98,075</u>	<u>2,051</u>	<u>20,828</u>	<u>6,997</u>	<u>2,825</u>	<u>32,701</u>	<u>316,255</u>	<u>138,278</u>	<u>52,632</u>	<u>934,209</u>	<u>85</u>	<u>1,572,235</u>
Subtotal – revenues		<u>6,472,011</u>	<u>187,770</u>	<u>252,507</u>	<u>103,172</u>	<u>33,486</u>	<u>576,935</u>	<u>318,937</u>	<u>511,497</u>	<u>52,632</u>	<u>934,209</u>	<u>85</u>	<u>8,866,306</u>
Other financing sources:													
Interfund transfers in													
From General Fund	8911	—	—	—	8,764	—	8,764	—	—	—	—	—	8,764
From Special Reserve Fund	8912	60,057	—	—	—	—	—	—	29,628	—	—	—	89,685
From all other Funds	8913	—	—	—	—	—	—	—	—	—	—	—	—
From General, Special Reserve, & Building Fund:	8915	—	—	—	—	30,000	30,000	—	—	—	—	—	30,000
From General, – In Cafeteria Fund PY	8916	—	—	11,140	—	—	11,140	—	—	—	—	—	11,140
Other authorized interfund transfers in	8919	32,000	—	—	—	—	—	210,068	—	1	—	—	242,069
Subtotal, interfund transfers in		<u>92,057</u>	<u>—</u>	<u>11,140</u>	<u>8,764</u>	<u>30,000</u>	<u>49,904</u>	<u>210,068</u>	<u>29,628</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>381,658</u>
Other sources:													
Proceeds from sale of bonds	8951	—	—	—	—	—	—	—	—	1,123,615	—	—	1,123,615
Proceeds from certificates of participation	8971	—	—	—	—	—	—	—	10,000	—	—	—	10,000
Proceeds from capital leases:	8972	1,318	—	—	—	—	—	—	—	—	—	—	1,318
All other financing source:	8979	63	—	—	—	—	—	717,005	—	182,106	—	—	899,174
Subtotal, other sources		<u>1,381</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>717,005</u>	<u>10,000</u>	<u>1,305,721</u>	<u>—</u>	<u>—</u>	<u>2,034,107</u>
Total other financing sources		<u>93,438</u>	<u>—</u>	<u>11,140</u>	<u>8,764</u>	<u>30,000</u>	<u>49,904</u>	<u>927,073</u>	<u>39,628</u>	<u>1,305,722</u>	<u>—</u>	<u>—</u>	<u>2,415,765</u>
Total revenues and other financing sources		<u>\$ 6,565,449</u>	<u>\$ 187,770</u>	<u>\$ 263,647</u>	<u>\$ 111,936</u>	<u>\$ 63,486</u>	<u>\$ 626,839</u>	<u>\$ 1,246,010</u>	<u>\$ 551,125</u>	<u>\$ 1,358,354</u>	<u>\$ 934,209</u>	<u>\$ 85</u>	<u>\$ 11,282,071</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Charter Schools

June 30, 2006

	<u>Fiscally dependent</u>	<u>Fiscally independent</u>	<u>Included in the district audit</u>
1 Canyon Elementary	x		Yes
2 Dr. T. Alexander Jr. Science Center School	x		Yes
3 High Tech High School	x		Yes
4 Kenter Canyon Elementary	x		Yes
5 Marquez Elementary	x		Yes
6 Open Charter School	x		Yes
7 Palisades Elementary	x		Yes
8 Revere Middle School	x		Yes
9 Topanga Elementary	x		Yes
10 Westwood Elementary	x		Yes
11 Academia Avance		x	No
12 Academia Semillas del Pueblo		x	No
13 Accelerated Charter		x	No
14 Accelerated Elementary		x	No
15 Animo South Los Angeles Senior High		x	No
16 Animo Venice Charter Senior High		x	No
17 Aspire Los Angeles Elementary		x	No
18 Bert Corona Charter School		x	No
19 California Academy for Liberal Studies		x	No
20 California Academy for Liberal Studies Early College High School		x	No
21 Camino Nuevo Charter Academy		x	No
22 Camino Nuevo Charter High School		x	No
23 Celerity Nascent Charter School		x	No
24 Central City Value School		x	No
25 Charter High School of Arts Multimedia/ Performing Arts High School (CHAMPS)		x	No
26 Chime Charter Middle School		x	No
27 Chime Charter School		x	No
28 City Life Downtown Charter School		x	No
29 College-Ready Academy Middle School		x	No
30 College-Ready Academy High School		x	No
31 Community Charter Early College High School		x	No
32 Community Charter Middle School		x	No
33 Community Harvest Charter		x	No
34 Cornerstone Prep Charter School		x	No
35 Crenshaw Arts-Technology High School		x	No
36 Crescendo Charter Elementary School		x	No
37 Culture & Language Academy of Success		x	No
38 Discovery Charter Prep		x	No
39 Downtown Value School		x	No
40 Fenton Avenue School		x	No
41 Gabriella Charter School		x	No
42 Giraffe Charter Elementary School		x	No
43 Granada Hills Charter High School		x	No
44 Heritage College Ready High School		x	No
45 Huntington Park College-Ready Academy Charter		x	No

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Charter Schools (Continued)

June 30, 2006

	<u>Fiscally dependent</u>	<u>Fiscally independent</u>	<u>Included in the district audit</u>
46		x	No
47		x	No
48		x	No
49		x	No
50		x	No
51		x	No
52		x	No
53			
		x	No
54		x	No
55		x	No
56		x	No
57		x	No
58		x	No
59		x	No
60		x	No
61		x	No
62		x	No
63		x	No
64		x	No
65		x	No
66		x	No
67		x	No
68		x	No
69		x	No
70		x	No
71		x	No
72		x	No
73		x	No
74		x	No
75		x	No
76		x	No
77		x	No
78			
		x	No
79		x	No
80		x	No
81		x	No
82		x	No
83		x	No
84			
		x	No
85		x	No
86		x	No

See accompanying independent auditors' report.



**STATISTICAL  
SECTION**

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Statistical Information

The Statistical Section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the District's overall financial health.

### Contents

#### *Financial trends*

These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.

#### *Revenue capacity*

These schedules contain information to help the reader assess the District's most significant local revenue sources.

#### *Debt capacity*

These schedules contain information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issued additional debt in the future.

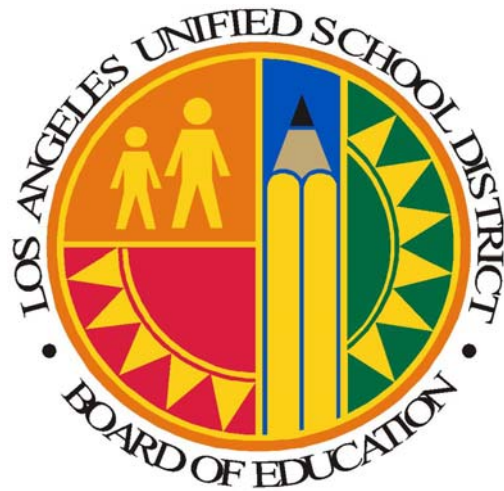
#### *Demographic and economic information*

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

#### *Operating information*

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and activities it performs.

**Source:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The District implemented GASB Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Net Assets by Components

Year ended June 30, 2006

(In thousands)

Governmental activities:	
Invested in capital assets, net of related debt	\$ 2,866,293
Restricted	1,089,165
Unrestricted	<u>222,743</u>
Total governmental activities net assets	<u>\$ 4,178,201</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Changes in Net Assets

Year ended June 30, 2006

(In thousands)

Expenses:

Governmental activities:

Instruction	\$ 4,032,673
Support services – students	298,911
Support services – instructional staff	650,551
Support services – general administration	46,913
Support services – school administration	466,862
Support services – business	106,523
Operation and maintenance of plant services	599,899
Student transportation services	161,395
Data processing services	115,311
Operation of noninstructional services	282,992
Facilities acquisition and construction services	135,867
Other uses	799
Interest expense	285,051
Interagency disbursements	33,678
Depreciation – unallocated	130,521
Total governmental activities	<u>7,347,946</u>

Program revenues:

Charges for services	119,327
Operating grants and contributions	2,971,836
Capital grants and contributions	374,192
Total program revenues	<u>3,465,355</u>
Net (expenses) revenues	<u>(3,882,591)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	644,637
Property taxes, levied for debt service	331,097
Property taxes, levied for community redevelopment	1,713
State aid – formula grants	2,781,133
Grants, entitlements and contributions not restricted to specific programs	441,396
Unrestricted investment earnings	138,346
Miscellaneous	6,386
Total revenues	<u>4,344,708</u>
Change in net assets	<u>\$ 462,117</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Governmental Activities Tax Revenues by Source

Year ended June 30, 2006

(In thousands)

Property taxes, levied for:	
General purposes	\$ 644,637
Debt service	331,097
Community redevelopment	<u>1,713</u>
	\$ <u><u>977,447</u></u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Fund Balances of Governmental Funds

Year ended June 30, 2006

(In thousands)

General fund:	
Reserved	\$ 144,673
Unreserved	289,839
Total general fund	<u>\$ 434,512</u>
District bonds:	
Reserved	\$ 3,300
Unreserved	1,096,859
Total district bonds	<u>\$ 1,100,159</u>
All other governmental funds:	
Reserved	\$ 310,349
Unreserved, reported in:	
Special revenue funds	187,178
Capital projects funds	773,041
Total all other governmental funds	<u>\$ 1,270,568</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Changes in Fund Balances of Governmental Funds

Year ended June 30, 2006

(In thousands)

Revenues:	
Revenue limit sources	\$ 3,724,599
Federal revenues	1,150,060
Other state revenues	2,419,412
Other local revenues	637,941
	<hr/>
Total revenues	7,932,012
	<hr/>
Expenditures:	
Current:	
Certificated salaries	3,187,441
Classified salaries	1,098,558
Employee benefits	1,418,575
Books and supplies	567,167
Services and other operating expenditures	691,388
Capital outlay	1,532,862
Debt service – principal	94,843
Debt service – bond, COPs, and capital leases interest	241,131
Debt service – refunding bond issuance cost	2,732
Other outgo	41,695
	<hr/>
Total expenditures	8,876,392
	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(944,380)
	<hr/>
Other financing sources (uses):	
Transfers in	381,658
Transfers out	(381,658)
Issuance of bonds	1,115,712
Premium on bonds issued	64,283
Refunding bonds issued	778,673
Premium on refunding bonds issued	64,058
Issuance of COPs	10,000
Payment to refunded bonds escrow agent	(656,098)
Payment to refunded COPs escrow agent	(178,618)
CA Energy Commission loan	63
Capital leases	1,318
	<hr/>
Total other financing sources	1,199,391
	<hr/>
Net change in fund balances	\$ 255,011
	<hr/>
Debt service as a percentage of noncapital expenditures	4.6%

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
 Governmental Fund Types  
 Expenditures and Other Uses by State-Defined Object  
 Last Ten Fiscal Years  
 (In thousands)

<b>Fiscal year</b>	<b>Certificated salaries</b>	<b>Classified salaries</b>	<b>Employee benefits</b>	<b>Books and supplies</b>	<b>Services and other oper. exp.</b>	<b>Capital outlay</b>	<b>Debt service</b>	<b>Other outgo (1)</b>	<b>Operating transfers out</b>	<b>Total expenditures and other uses</b>
1996-1997	\$ 1,960,176	\$ 660,150	\$ 613,537	\$ 248,012	\$ 341,712	\$ 165,661	\$ 60,693	\$ 18,365	\$ 173,346	\$ 4,241,652
1997-1998	2,160,655	724,673	639,210	317,490	418,594	341,979	108,407	27,363	217,664	4,956,035
1998-1999	2,401,413	813,977	660,532	324,847	489,093	416,356	146,470	56,490	119,144	5,428,322
1999-2000	2,512,041	878,749	763,856	393,713	587,450	359,124	51,662	42,582	422,092	6,011,269
2000-2001	2,856,783	981,602	845,340	475,529	629,724	409,618	132,517	71,389	295,058	6,697,560
2001-2002	2,949,992	1,044,050	1,056,848	(2) 492,982	650,543	756,064	217,078	(387)	(2) 360,338	7,527,508
2002-2003	3,036,964	1,056,274	1,207,073	490,211	757,868	691,793	201,782	(145)	263,998	7,705,818
2003-2004	3,055,482	1,065,409	1,312,887	468,036	821,490	1,003,568	346,196	41,273	171,934	8,286,275
2004-2005	3,110,756	1,069,595	1,349,301	499,411	646,373	1,398,243	344,171	602,610	598,061	9,618,521
2005-2006	3,187,441	1,098,558	1,418,575	567,167	691,388	1,532,862	338,706	876,411	381,658	10,092,766

Notes:

(1) "Other Outgo" includes Tuition for Handicapped Pupils and Transfer to Charter Schools of funding in-lieu of property taxes.

(2) Beginning in fiscal year 2001-2002, PERS Reduction is reflected under "Employee Benefits". Prior to 2001-2002, PERS Reduction was reflected under "Other Outgo".

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Governmental Fund Types  
Expenditures and Other Uses by Goal and Function

Last Four Fiscal Years

(In thousands)

	<u>2003</u>		<u>2004</u>		<u>2005</u>		<u>2006</u>
Instructional goals:							
General education	\$ 3,673,054	\$	3,741,979	\$	3,935,655	\$	4,145,863
Special education	1,166,539		1,214,874		1,195,855		1,252,592
Others	97,706		99,995		94,496		93,176
	<u>4,937,299</u>		<u>5,056,848</u>		<u>5,226,006</u>		<u>5,491,631</u>
Noninstructional goals:							
Community services	25,371		24,258		26,423		27,165
Child care services	6,920		5,234		7,887		3,656
	<u>32,291</u>		<u>29,492</u>		<u>34,310</u>		<u>30,821</u>
Support services	1,195,756		1,207,134		1,058,764		1,083,003
Facilities acquisition	853,255		1,219,838		1,522,494		1,635,060
Food services	220,978		212,280		222,640		241,888
Other outgo:							
Debt service	201,782		346,196		344,171		517,324
All other outgo	264,457		214,487		1,210,136		1,093,039
	<u>466,239</u>		<u>560,683</u>		<u>1,554,307</u>		<u>1,610,363</u>
Total expenditures and other uses	\$ <u>7,705,818</u>	\$	\$ <u>8,286,275</u>	\$	\$ <u>9,618,521</u>	\$	\$ <u>10,092,766</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Governmental Fund Types  
Revenues by Source (SACS Report Categories)

Last Ten Fiscal Years

(In thousands)

<b>Fiscal year</b>	<b>Revenue limit sources</b>	<b>Federal</b>	<b>Other state</b>	<b>Other local</b>	<b>Other financing sources</b>	<b>Total</b>
1996-1997	\$ 2,328,360	\$ 426,404	\$ 1,286,813	\$ 121,223	\$ 299,904	\$ 4,462,704
1997-1998	2,549,222	454,281	1,462,532	186,448	740,505	5,392,988
1998-1999	2,669,411	504,998	1,617,343	218,269	487,958	5,497,979
1999-2000	2,803,911	590,308	1,931,649	282,503	817,112	6,425,483
2000-2001	3,166,947	598,540	2,044,908	357,231	1,040,713	7,208,339
2001-2002	3,388,475	686,278	1,922,377	325,743	1,067,900	7,390,773
2002-2003	3,456,958	814,681	2,118,662	401,287	3,148,244	9,939,832
2003-2004	3,436,839	984,482	2,434,073	451,220	191,696	7,498,310
2004-2005	3,575,257	1,071,628	2,109,674	549,264	1,260,755	8,566,578
2005-2006	3,724,599	1,150,060	2,419,412	637,941	2,235,829	10,167,841

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Assessed Value of Taxable Property

Last Ten Fiscal Years

(In thousands)

Fiscal year	Secured*	Unsecured*	Total	Increase (decrease) over preceding year		Total A.D.A.**	Assessed value per unit of A.D.A.**
				Amount	Rate		
1996-1997	\$ 200,262,164	\$ 16,103,648	\$ 216,365,812	\$ (3,421,355)	(1.56)%	\$ 717,911	\$ 301
1997-1998	200,529,601	16,934,361	217,463,962	1,098,150	0.51	731,206	297
1998-1999	205,280,714	18,081,722	223,362,436	5,898,474	2.71	719,105	311
1999-2000	218,916,146	18,927,746	237,843,892	14,481,456	6.48	732,409	325
2000-2001	233,797,971	20,142,603	253,940,574	16,096,682	6.77	740,293	*** 343
2001-2002	249,496,423	22,018,503	271,514,926	17,574,352	6.92	762,688	*** 356
2002-2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90	766,137	*** 375
2003-2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30	758,605	*** 407
2004-2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58	746,605	445
2005-2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62	722,564	504

\*\*\* Adjusted to exclude fiscally independent charter schools

Sources: \* 2005-2006 Los Angeles County Auditor-Controller "Taxpayers' Guide"  
 \*\* A.D.A. - Average Daily Attendance, Annual Report

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Property Tax Rates – All Direct and Overlapping Governments  
(Per \$100 of assessed value)  
Last Ten Fiscal Years

<b>Fiscal year</b>	<b>Unified general</b>	<b>Unified bonds</b>	<b>Total schools tax</b>	<b>State-wide for all agencies</b>	<b>Total district tax</b>	<b>Metropolitan water district</b>	<b>Los Angeles county general</b>	<b>City of Los Angeles district no.1</b>	<b>County flood control district</b>
1996-1997	0.003338	—	0.003338	1.000000	1.003338	0.008900	0.001604	0.035969	0.001991
1997-1998	0.001622	0.010395	0.012017	1.000000	1.012017	0.008900	0.001584	0.031098	0.002197
1998-1999	0.000328	0.024421	0.024749	1.000000	1.024749	0.008900	0.001451	0.030161	0.001953
1999-2000	0.000373	0.031155	0.031528	1.000000	1.031528	0.008900	0.001422	0.031113	0.001765
2000-2001	0.000363	0.040402	0.040765	1.000000	1.040765	0.008800	0.001314	0.026391	0.001552
2001-2002	—	0.048129	0.048129	1.000000	1.048129	0.007700	0.001128	0.040051	0.001073
2002-2003	0.000107	0.036866	0.036973	1.000000	1.036973	0.006700	0.001033	0.042312	0.000881
2003-2004	0.000160	0.076985	0.077145	1.000000	1.077145	0.006100	0.000992	0.050574	0.000462
2004-2005	0.000143	0.088696	0.088839	1.000000	1.088839	0.005800	0.000923	0.055733	0.000245
2005-2006	0.000107	0.084239	0.084346	1.000000	1.084346	0.005200	0.000795	0.051289	0.000049

Source: 2005-2006 Los Angeles County Auditor-Controller "Taxpayers' Guide"

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Largest Local Secured Taxpayers

Year ended June 30, 2006

	<u>Property owner</u>	<u>Primary land use</u>	<u>2005-2006 assessed valuation</u>	<u>% of Total(1)</u>
1	Douglas Emmett Realty Funds	Office Building	\$ 1,965,325,818	0.57%
2	Universal Studios LLC	Motion Picture Studio	1,220,328,767	0.36
3	Ardean Realty LP	Office Building	925,145,236	0.27
4	Anheuser Busch Inc.	Industrial	784,954,028	0.23
5	Warner Bros. Entertainment Inc.	Motion Picture Studio	552,579,413	0.16
6	Maguire Partners, 355 S. Grand LLC	Office Building	534,068,305	0.16
7	One Hundred Towers LLC	Office Building	532,784,110	0.16
8	Trizec 333 LA LLC	Office Building	413,989,000	0.12
9	Duesenberg Investment Company	Office Building	384,179,582	0.11
10	Casden Park La Brea LLC	Apartments	374,257,405	0.11
11	Paramount Pictures Corp.	Motion Picture Studio	361,558,317	0.11
12	Walt Disney Productions Inc.	Motion Picture Studio	345,723,379	0.10
13	Warner Center Condominiums LLC	Apartments/Condominiums	325,330,400	0.09
14	1999 Stars LLC	Office Building	321,981,403	0.09
15	Century City Mall LLC	Shopping Center	314,937,378	0.09
16	AP Properties Ltd.	Office Building	298,549,863	0.09
17	Twentieth Century Fox Film Corp.	Motion Picture Studio	292,444,755	0.09
18	Library Square Associates LLC	Office Building	283,970,560	0.08
19	515 555 Flower Associates LLC	Office Building	281,361,717	0.08
20	2121 Avenue of the Stars LLC	Office Building	276,500,000	0.08
			<u>\$ 10,789,969,436</u>	<u>3.15%</u>

(1) 2005-2006 Assessed Valuation: \$342,976,043,882

Source: California Municipal Statistics, Inc.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Property Tax Levies and Collections

Last Ten Fiscal Years

(In thousands)

<b>Fiscal year</b>	<b>Total tax levy</b>	<b>ERAF funds(2)</b>	<b>Current tax collections</b>	<b>Delinquent &amp; other unpaid tax levies(1)</b>	<b>Current delinquency rate(3)</b>
1996-1997	\$ 420,158	\$ 392,577	\$ 775,879	\$ 15,807	2.04%
1997-1998	442,619	428,745	832,010	33,855	4.07
1998-1999	486,496	420,226	834,727	22,342	2.68
1999-2000	532,436	434,175	941,023	19,589	2.08
2000-2001	583,508	465,002	1,037,958	29,973	2.89
2001-2002	652,455	493,649	1,125,788	29,264	2.60
2002-2003	656,436	536,530	1,190,192	13,881	1.17
2003-2004	821,820	576,038	1,386,560	34,987	2.52
2004-2005	929,248	171,052	1,091,325	34,128	3.13
2005-2006	991,275	76,068	1,026,351	30,963	3.02

(1) Includes prior years' delinquencies.

(2) Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District.

(3) Delinquent and Other Unpaid Tax Levies divided by Current Tax Collections.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
 Revenue Limit Per Unit of Average Daily Attendance  
 Last Ten Fiscal Years

<b>Fiscal year</b>	<b>K-12 base revenue limit</b>		<b>Adult base revenue limit</b>	
1996-1997	\$	3,760.73	\$	1,887.35
1997-1998		3,910.18		1,942.66
1998-1999		4,282.13		1,991.48
1999-2000		4,342.13		2,022.90
2000-2001		4,480.13		2,101.66
2001-2002		4,654.13		2,196.82
2002-2003		4,747.13		2,242.12
2003-2004		4,835.13		2,242.12
2004-2005		4,968.66		2,292.26
2005-2006		5,179.66		2,389.22

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Governmental Fund Types

Schedule of Revenues and Other Sources, Expenditures and Other Uses  
by State-Defined Object

Last Five Fiscal Years (in Thousands)

	2001-2002		2002-2003	
	Amount	Percent	Amount	Percent
Revenues and other sources	\$ 3,388,475	45.85%	\$ 3,456,958	34.78%
Revenue limit sources	686,278	9.28	814,681	8.20
Federal revenues	1,922,377	26.01	2,118,662	21.32
Other state revenues	325,743	4.41	401,287	4.04
Other local revenues	339,093	4.59	264,190	2.66
Operating transfers in	500,000	6.76	2,607,345	26.22
Proceeds from issuance of bonds	—	—	—	—
Premium on bonds issued	—	—	—	—
Proceeds from refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
State school facilities apportionments	—	—	—	—
Proceeds from Certif. of Participation/Long-term Capital Lease (1)	228,366	3.09	276,191	2.78
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	—	—
Children Center facilities fund	441	0.01	518	—
<b>Total revenues and other sources</b>	<b>\$ 7,390,773</b>	<b>100.00%</b>	<b>\$ 9,939,832</b>	<b>100.00%</b>
Expenditures and other uses				
Current:				
Certificated salaries	\$ 2,949,992	39.19%	\$ 3,036,964	39.41%
Classified salaries	1,044,050	13.87	1,056,274	13.71
Employee benefits	1,056,848	14.04	1,207,073	15.66
Books and supplies	492,982	6.55	490,211	6.36
Services and other operating expenditures (2)	650,543	8.64	757,868	9.83
Capital outlay	756,064	10.04	691,793	8.98
Debt service	217,078	2.89	201,782	2.62
Other outgo (2)	(387)	(0.01)	(145)	—
Operating transfers out (3)	360,338	4.79	263,998	3.43
Payment to refunded bonds escrow agent	—	—	—	—
Payment to refunded COPs escrow agent	—	—	—	—
<b>Total expenditures and other uses</b>	<b>\$ 7,527,508</b>	<b>100.00%</b>	<b>\$ 7,705,818</b>	<b>100.00%</b>

- (1) The 2001-2002 COPs proceeds were used to acquire and improve real properties, including the new Administration Building and the former Ambassador Hotel site, and the refunding of the 1991 COPs that refunded the 1988 COPs for the Bravo Medical Magnet Senior High School Project. The 2002-2003 COPs proceeds were used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: air-conditioning relocatable classrooms, gymnasium improvements, computer and telephone equipment, school police vehicles, sports and parking facilities, school museum and other projects. The 2004-2005 COPs proceeds were used to refund a portion of prior year issuances and make administration building improvements. The 2005-2006 COPs proceeds were used to modernize nine school to accommodate existing or planned academy programs that address student career pathway/higher education interests

See accompanying independent auditors' report.

2003-2004		2004-2005		2005-2006	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 3,436,839	45.83%	\$ 3,575,257	41.73%	\$ 3,724,599	35.99%
984,482	13.13	1,071,628	12.51	1,150,060	11.11
2,434,073	32.46	2,109,674	24.63	2,419,412	23.38
451,220	6.02	549,264	6.41	637,941	6.17
172,148	2.30	598,061	6.98	381,658	3.69
—	—	200,000	2.33	1,115,712	10.78
—	—	4,124	0.05	64,283	0.62
—	—	219,125	2.56	778,673	7.53
—	—	16,338	0.19	64,058	0.62
—	—	—	—	—	—
7,630	0.10	221,789	2.59	11,318	0.11
—	—	1,318	0.02	63	—
11,918	0.16	—	—	—	—
—	—	—	—	—	—
<u>\$ 7,498,310</u>	<u>100.00%</u>	<u>\$ 8,566,578</u>	<u>100.00%</u>	<u>\$ 10,347,777</u>	<u>100.00%</u>
\$ 3,055,482	36.87%	\$ 3,110,756	32.34%	\$ 3,187,441	31.58
1,065,409	12.86	1,069,595	11.12	1,098,558	10.88
1,312,887	15.84	1,349,301	14.03	1,418,575	14.06
468,036	5.65	499,411	5.19	567,167	5.62
821,490	9.91	646,373	6.72	691,388	6.85
1,003,568	12.11	1,398,243	14.54	1,532,862	15.19
346,196	4.18	344,171	3.58	338,706	3.36
41,273	0.51	34,526	0.36	41,695	0.41
171,934	2.07	598,061	6.22	381,658	3.78
—	—	234,126	2.43	656,098	6.50
—	—	333,958	3.47	178,618	1.77
<u>\$ 8,286,275</u>	<u>100.00%</u>	<u>\$ 9,618,521</u>	<u>100.00%</u>	<u>\$ 10,092,766</u>	<u>100.00%</u>

(2) "Other outgo" includes Tuition for Handicapped Pupils. Starting from fiscal year 2003-2004, Charter Schools In-lieu of Taxes is included in total expenditures under object 7280 as Other transfers out. Previously, this was a reduction of the revenues.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Governmental Fund Types

Schedule of Revenues and Other Sources, Expenditures and Other Uses  
by State-Defined Object (Continued)

Last Five Fiscal Years (in Thousands)

(3) Table below shows Detail of Operating transfers out (in thousands):

<u>From</u>	<u>To</u>	<u>2001-2002</u>
General	Charter Fund	\$20,240
General	Child Development	8,947
General	Special Reserve	170,845
General	Special Reserve - Community Redevelopment Agency	1,662
General	Special Reserve - FEMA - Earthquake	26,555
General	Special Reserve - FEMA - Hazard Mitigation	9,109
General	Deferred Maintenance	24,191
General	Capital Services	76,132
General	Building - Measure R	—
General	Cafeteria	—
Capital Services	Building - Measure Y	—
Special Reserve	Capital Services	—
Special Reserve	General Fund	—
Capital Facilities	Capital Services	18,034
State School Building Lease - Purchase	Capital Services	—
County School Facilities	Capital Services	—
Capital Facilities	State School Building Lease - Purchase	1,303
Adult Education	General Fund	—
Child Development	General Fund	—
Special Reserve - FEMA - Earthquake	General Fund	—
Special Reserve - FEMA - Hazard Mitigation	General Fund	—
Annuity	General Fund	—
Attendance Incentive	General Fund	—
Cafeteria	General Fund	2,315
Cafeteria	Charter Fund	1,005
Building - Measure R	Capital Services	—
Building - Measure Y	General Fund	—
Building - Measure Y	Capital Services	—
Capital Services	General Fund	—
Capital Services	Special Reserve	—
		<hr/> <hr/>
		\$360,338

See accompanying independent auditors' report.

<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
\$ —	\$ —	\$ —	\$ —
8,475	8,412	8,065	8,764
168,805	12,970	110,540	27,403
1,419	3,757	—	—
9,167	3,806	—	2,225
9,613	25,681	2,225	—
2,134	8,140	23,300	30,000
37,655	51,430	198,026	4,169
—	—	59	—
—	—	—	11,140
—	—	—	1
(5,866)	20,633	28,800	—
—	—	17,155	57,312
17,928	23,260	24,045	21,606
—	—	—	2,629
—	—	—	3,046
6,070	5,714	7,613	—
2,421	2,583	—	—
2,068	1,980	2,100	2,000
854	628	213	520
725	298	149	2,225
154	—	—	—
38	—	—	—
2,530	2,642	1,251	—
—	—	—	—
—	—	149,995	—
—	—	—	30,000
—	—	—	178,618
—	—	7,370	—
—	—	17,155	—
<u>\$ 264,190</u>	<u>\$ 171,934</u>	<u>\$ 598,061</u>	<u>\$ 381,658</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Ratio of Annual Debt Service for General Bonded Debt and Certificates of  
Participation (COPS) to Total General Governmental Expenditures

Last Ten Fiscal Years

(In thousands)

<b>Fiscal year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total debt service (1)</b>	<b>Total general governmental expenditures</b>	<b>Ratio of debt service to total general governmental expenditures</b>
1996-1997	\$ 30,005	\$ 12,915	\$ 42,920	\$ 4,241,652	1.01%
1997-1998	68,890	23,452	92,342	4,956,035	1.86
1998-1999	97,065	38,917	135,982	5,428,325	2.51
1999-2000	39,055	46,294	85,349	6,011,269	1.42
2000-2001	38,265	78,704	116,969	6,697,560	1.75
2001-2002	97,935	91,386	189,321	7,527,508	2.52
2002-2003	86,400	89,292	175,692	7,705,818	2.28
2003-2004	107,370	231,349	338,719	8,286,275	4.09
2004-2005	248,025	248,661	496,686	9,628,421	5.16
2005-2006	89,885	237,622	327,507	10,092,766	3.24

Notes:

(1) Payments for General Obligation Bonds and COPS, excluding fees paid in other cities, bond issuance, and other costs.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Ratio of Net General Bonded Debt and Certificates of Participation (COPS) to  
Assessed Value and Net Debt Per Capita

Last Ten Fiscal Years

(Dollars in thousands except Net Debt per Capita)

<b>Fiscal year</b>	<b>Population Los Angeles Unified *</b>	<b>Total assessed value</b>	<b>Gross debt <sup>(1)</sup></b>	<b>Debt service monies available</b>	<b>Net debt <sup>(1)</sup></b>	<b>Ratio of net debt to assessed value</b>	<b>Net debt per capita</b>
1996-1997	4,487,919	\$ 216,365,812	\$ 258,245	\$ 59,103	\$ 199,142	0.0920	\$ 44
1997-1998	4,542,361	217,463,962	697,560	116,472	581,088	0.2672	128
1998-1999	4,601,269	223,362,436	950,495	61,020	889,475	0.3982	193
1999-2000	4,675,227	237,843,892	1,234,287	81,529	1,152,758	0.4847	247
2000-2001	4,636,724	253,940,575	1,790,392	117,148	1,673,244	0.6589	361
2001-2002	4,502,647	271,514,926	2,395,127	159,062	2,236,065	0.8236	497
2002-2003	4,660,473	287,525,935	5,191,382	211,507	4,979,875	1.7320	1,069
2003-2004	4,718,101	308,528,780	5,085,570	208,215	4,877,355	1.5808	1,034
2004-2005	4,775,778	331,925,137	5,095,029	224,306	4,870,723	1.4674	1,020
2005-2006	4,784,682	363,869,479	6,233,663	283,891	5,949,772	1.6351	1,244

\* Estimate

<sup>(1)</sup> Includes bonded debts (General Obligation Bonds) and COPS.

Sources: 2005-2006 Los Angeles County Auditor-Controller "Taxpayers' Guide"  
Los Angeles County Department of Regional Research Section

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Direct and Overlapping Bonded Debt

June 30, 2006

(Dollars in thousands)

<u>Government</u>	<u>Percentage applicable</u>	<u>Amount applicable</u>
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	\$ 5,803,689
Certificates of Participation	100.000	429,974
		<u>6,233,663</u>
Overlapping:		
Los Angeles County	45.776	3,843
Los Angeles County General Fund Obligations	45.776	580,102
Los Angeles County Pension Obligations	45.776	337,407
Los Angeles County Superintendent of Schools Certificates of Participation	45.776	9,972
Los Angeles County Flood Control District	46.350	59,254
Metropolitan Water District	23.028	89,709
Los Angeles Community College District	81.674	567,393
City of Los Angeles	99.916	1,444,036
City of Los Angeles General Fund and Judgment Obligations	99.916	1,136,450
Other City General Fund and Pension Obligations	various	183,195
Los Angeles County Sanitation Districts		
Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	various	59,039
Los Angeles County Regional Park & Open Space Assessment District	45.776	149,097
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.000	82,575
City Community Facilities Districts	100.000	146,210
City of Los Angeles Assessment District #1	100.000	10,509
City of Los Angeles Landscaping and Special Tax Assessment District	99.916	174,503
Other City and Special District 1915 Act Bonds	100.000	29,775
Other Cities	various	13,979
Palos Verdes Library District	4.988	527
		<u>5,077,575</u>
Total overlapping		5,077,575
Total gross direct and overlapping bonded debt		11,311,238 (1)
Less:		
LA County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		17,958
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)		5,712
City self-supporting bonds		13,362
		<u>37,032</u>
Total net direct and overlapping bonded debt		\$ 11,274,206
State school building aid repayable as of 6/30/05	\$ 880	

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and nonbonded capital lease obligations.

Source: California Municipal Statistics, Inc. and District records.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Computation of Legal Debt Margin

June 30, 2006

(In thousands)

Assessed valuation (net taxable)		\$	360,763,600
Plus exempt property			<u>3,105,879</u>
Total assessed valuation		\$	<u><u>363,869,479</u></u>
Debt limit – 2.5% of Assessed Valuation per Education Code Section 15106 <sup>(1)</sup>		\$	9,096,737
Bonded Debt:			
General Obligation Bonds	\$	5,803,689	
Assets available for payment of principal:			
Bond Interest & Redemption Fund		<u>(282,984)</u>	
Total amount of debt applicable to debt limit			<u>5,520,705</u>
Legal Debt Margin (bonded Debt) <sup>(2)</sup>		\$	<u><u>3,576,032</u></u>

<sup>(1)</sup> Converted rate from 10% of 25% of full cash value (2.5%) to 2.5% of 100% of full cash value (2.5%).

<sup>(2)</sup> Based on a recalculation effective June 30, 2003, the computation of legal debt margin excludes Certificates of Participation which are not bonded.

Source: 2005-2006 Los Angeles County Auditor-Controller "Taxpayers' Guide"

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Demographic Statistics

Last Ten Fiscal Years

(In thousands)

<b>Year</b>	<b>Population City of Los Angeles</b>	<b>Population Los Angeles Unified*</b>	<b>Population County of Los Angeles</b>	<b>School Enrollment County of Los Angeles</b>	<b>School Enrollment Los Angeles Unified</b>	<b>Unemployment Rate County of Los Angeles</b>
1996-1997	3,682	4,488	9,488	1,550	856	6.6%
1997-1998	3,722	4,542	9,603	1,583	879	6.5
1998-1999	3,782	4,601	9,728	1,618	913	5.8
1999-2000	3,823	4,675	9,884	1,651	875	5.7
2000-2001	3,803	4,637	9,803	1,682	889	5.8
2001-2002	3,695	4,503	9,519	1,711	907	6.8
2002-2003	3,864	4,660	9,980	1,736	905	6.8
2003-2004	3,912	4,718	10,103	1,743	879	6.2
2004-2005	3,958	4,776	10,227	1,734	847	5.2
2005-2006	3,976	4,785	10,246	1,708	877	4.5

\* Estimate

Sources: Los Angeles County Office of Regional Planning Research Section  
 California State Department of Finance.  
 Los Angeles County Office of Education Information Services Unit.  
 California State Department of Education, Educational Demographics Unit  
 District's Statistical Records – October Enrollment for Fiscal Year.  
 California Employment Development Department.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Principal Employers

Year ended June 30, 2006

<b>Employer</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of total county employment</b>
Kaiser Permanente	32,180	1	0.70%
Northrop Grumman Corp.	21,000	2	0.45
Boeing Co.	15,825	3	0.34
Kroger Co.	14,000	4	0.30
University of Southern California	12,379	5	0.27
Bank of America Corp.	12,200	6	0.26
Vons	12,116	7	0.26
Target Corp.	12,066	8	0.26
AT&T Inc.	9,500	9	0.21
Cedars-Sinai Medical Center	8,817	10	0.19
Total	150,083		3.24%

Sources: Los Angeles Business Journal, "The Lists 2006".  
California Employment Development Department.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Average Daily Attendance/hours of Attendance

(Annual Report)

Last Ten Fiscal Years

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Elementary:				
Kindergarten	60,684	59,312	55,963	55,675
Grades 1-3	175,427	181,125	180,558	180,409
Grades 4-6	145,147	149,046	148,901	156,334
Grades 7-8	83,236	85,286	83,670	86,023
Special Education	20,173	21,310	20,927	22,680
County Special Education*	—	—	—	—
Opportunity Schools	115	72	63	60
Home or Hospital	172	167	201	210
Community Day Schools	23	85	77	148
County Community Schools	—	—	—	—
Total elementary	<u>484,977</u>	<u>496,403</u>	<u>490,360</u>	<u>501,539</u>
Secondary:				
Regular Classes	143,259	145,396	137,758	140,440
Special Education	8,217	8,448	8,780	8,700
County Special Education*	—	—	—	—
Compulsory Continuation Education	3,232	3,231	2,944	2,769
Opportunity Schools	1,089	956	875	820
Home or Hospital	102	113	93	99
Community Day Schools	52	236	264	297
County Community Schools*	—	—	—	—
Total secondary	<u>155,951</u>	<u>158,380</u>	<u>150,714</u>	<u>153,125</u>
Blk grant funded fiscally affiliated charters*				
Revenue Limit Funded Charters	—	—	—	—
Total blk grant funded fiscally affiliated charters	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Adult program:				
ROC/P Mandated	16,190	17,225	17,892	18,813
Classes for Adults - Mandated	58,397	56,893	57,684	56,408
Concurrently Enrolled Adults	2,396	2,305	2,455	2,524
Full-time Independent Study**	—	—	—	—
Total adult program	<u>76,983</u>	<u>76,423</u>	<u>78,031</u>	<u>77,745</u>
Total average daily attendance	<u><u>717,911</u></u>	<u><u>731,206</u></u>	<u><u>719,105</u></u>	<u><u>732,409</u></u>

Summer School Hours of Attendance

Elementary	3,373,060	3,443,886	3,487,072	7,140,461
Secondary	4,861,894	5,230,377	4,792,230	4,988,748
Dependent Charter	—	—	—	—
Total hours	<u><u>8,234,954</u></u>	<u><u>8,674,263</u></u>	<u><u>8,279,302</u></u>	<u><u>12,129,209</u></u>

\* Starting 2001-2002, these classifications are being presented separately to conform with state reports.

\*\* Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

\*\*\* Included with Elementary and Secondary hours.

See accompanying independent auditors' report.

<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
52,649	52,071	50,741	49,775	48,806	47,876
172,706	176,474	173,178	169,239	160,224	151,592
156,021	156,347	156,944	159,617	159,615	152,341
87,223	90,474	93,818	97,978	94,396	91,576
22,327	23,130	23,302	23,585	22,107	20,435
—	4	6	8	—	—
92	97	13	8	14	10
203	203	164	152	158	159
159	141	190	196	190	172
7	12	17	10	19	16
<u>491,387</u>	<u>498,953</u>	<u>498,373</u>	<u>500,568</u>	<u>485,529</u>	<u>464,177</u>
137,439	142,870	148,631	150,239	152,901	152,848
9,634	10,219	10,393	11,026	11,274	11,350
—	17	17	21	1	—
2,785	2,858	2,866	3,031	3,171	3,198
875	912	430	328	400	407
94	90	88	96	121	120
255	238	674	733	736	757
244	149	143	127	175	156
<u>151,326</u>	<u>157,353</u>	<u>163,242</u>	<u>165,601</u>	<u>168,779</u>	<u>168,836</u>
<u>19,952</u>	<u>20,010</u>	<u>17,681</u>	<u>5,143</u>	<u>5,990</u>	<u>5,958</u>
<u>19,952</u>	<u>20,010</u>	<u>17,681</u>	<u>5,143</u>	<u>5,990</u>	<u>5,958</u>
18,865	19,846	19,233	20,125	19,110	14,395
55,781	63,355	63,590	62,570	61,748	63,305
2,982	3,170	4,015	4,592	5,446	5,886
—	1	3	6	3	7
<u>77,628</u>	<u>86,372</u>	<u>86,841</u>	<u>87,293</u>	<u>86,307</u>	<u>83,593</u>
<u>740,293</u>	<u>762,688</u>	<u>766,137</u>	<u>758,605</u>	<u>746,605</u>	<u>722,564</u>
5,990,462	6,978,428	7,645,522	8,855,212	12,526,699	12,061,970
4,305,605	5,237,002	5,486,137	5,941,513	6,350,873	8,929,199
378,575	408,580	195,142	***	***	***
<u>10,674,642</u>	<u>12,624,010</u>	<u>13,326,801</u>	<u>14,796,725</u>	<u>18,877,572</u>	<u>20,991,169</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
 Full-Time Equivalent District Employees by Function  
 Fiscal Year ended June 30, 2006  
 (in thousands)

Governmental Activities:	
Instruction	\$ 52,608
Support services – students	3,091
Support services – instructional staff	5,560
Support services – general administration	209
Support services – school administration	5,870
Support services – business	1,119
Operation and maintenance of plant services	7,537
Student transportation services	1,174
Data processing services	557
Operation of noninstructional services	3,232
Facilities acquisition and construction services	937
Total governmental activities	\$ <u>81,894</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Capital Assets by Function

Fiscal Year ended June 30, 2006

(in thousands)

Governmental Activities:

Instruction	\$	497,404
Support services – students		2,823
Support services – instructional staff		109,660
Support services – general administration		4,076
Support services – school administration		60,447
Support services – business		30,818
Operation and maintenance of plant services		177,094
Student transportation services		49,357
Data processing services		388,367
Operation of noninstructional services		9,977
Facilities acquisition and construction services		<u>9,131,797</u>
Total governmental activities	\$	<u><u>10,461,820</u></u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Miscellaneous Statistical and Other Data

June 30, 2006

Geographical location: The Los Angeles Unified School District is a political subdivision of the State of California. It is located in the western section of Los Angeles County and includes virtually all the city of Los Angeles and all of the 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 territories devoted to homes and industry

Geographical area: 710 square miles

Administrative offices: 333 South Beaudry Avenue, Los Angeles, CA 90017

Form of Government: The District is governed by a seven-member Board of Education elected by district to serve alternating four-year terms.

	<u>Expiration of term</u>
Marlene Canter, President	June 30, 2009
Monica Garcia	June 30, 2009
Julie Korenstein	June 30, 2009
Marguerite Poindexter LaMotte	June 30, 2007
Mike Lansing	June 30, 2007
Jon Lauritzen	June 30, 2007
David Tokofsky	June 30, 2007
The Superintendent of Schools is	
David L. Brewer III (Effective Nov. 13, 2006)	
Roy Romer (Retired effective Dec. 15, 2006)	

Date of establishment: 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960.

Fiscal year: July 1 – June 30

Number of schools:	<u>2005-2006</u>	<u>2004-2005</u>
(As of October)		
Elementary Schools	437	432
Middle/Junior High Schools	74	74
Senior High Schools	61	53
Options Schools	59	59
Special Education Schools	17	18
Magnet Schools	22	22
Magnet Centers	138	138
Community Adult Schools	24	24
Regional Occupational Centers	5	5
Skills Centers	5	5
Regional Occupational Program	1	1
Early Education Centers	100	100
Infant Centers	5	5
Primary School Centers	27	26
Newcomer Schools	1	1
Multi-level Schools	10	8
Total Schools and Centers	<u>986</u>	<u>971</u>

Enrollment by level:	<u>2005-2006</u>	<u>2004-2005</u>
(As of October)		
Elementary Schools	306,949	324,094
Middle/Junior High Schools	141,984	145,264
Senior High Schools	168,325	171,560
Magnet Schools/Centers	52,569	53,266
Special Education Schools	3,673	3,908
Total K-12 enrollment	<u>673,500</u>	<u>698,092</u>
Community Adult Schools	108,096	101,406
Occupational Centers and Skills Centers	<u>37,672</u>	<u>36,803</u>
Total adult/roc enrollment	<u>145,768</u>	<u>138,209</u>
Total enrollment	<u>819,268</u>	<u>836,301</u>
Early Education Centers	<u>11,052</u>	<u>10,947</u>

See accompanying independent auditors' report.

**STATE AND FEDERAL  
COMPLIANCE  
INFORMATION  
SECTION**



**LOS ANGELES UNIFIED SCHOOL DISTRICT**  
Schedule of Average Daily Attendance/Hours of Attendance  
Year ended June 30, 2006

	<u>Second period report</u>	<u>Annual report</u>
Elementary:		
General education:		
Kindergarten	47,834	47,876
Grades 1-3	152,173	151,592
Grades 4-8	245,202	243,917
Opportunity Schools	9	10
Home or Hospital	147	159
Community Day Schools	141	172
County Community Schools	17	16
Special education	20,122	20,435
County Special Education*	1	—
Total elementary	<u>465,646</u>	<u>464,177</u>
Secondary:		
General education:		
Regular Classes	156,296	152,848
Continuation Education	3,259	3,198
Opportunity Schools	407	407
Home or Hospital	114	120
Community Day Schools	689	757
County Community Schools	165	156
Special education	11,320	11,350
County Special Education*	—	—
Total secondary	<u>172,250</u>	<u>168,836</u>
Block grant funded fiscally affiliated charters*	5,978	5,958
Adult program:		
Regional Occupational Centers & Programs	17,330	14,395
Classes for Adults – Mandated	56,332	63,305
Concurrently Enrolled Adults	4,997	5,886
Full-time Independent Study**	8	7
Total adult program	<u>78,667</u>	<u>83,593</u>
Total average daily attendance	<u>722,541</u>	<u>722,564</u>
	<b><u>Hours of attendance</u></b>	
Summer school:		
Elementary	7,536,820	12,061,970
Secondary	4,821,507	8,929,199
Total hours	<u>12,358,327</u>	<u>20,991,169</u>

\* Starting in 2001-2002, these classifications are being presented separately to conform with state reports.

\*\* Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Fiscal Year ended June 30, 2006

<b>Federal grantor/pass-through grantor/program title</b>	<b>Catalog of federal domestic assistance number</b>	<b>Grantor or pass-through entity ID number</b>	<b>Federal expenditures</b>
U.S. Department of Agriculture			
Passed through California Department of Health Services:			
Child Nutrition Network	10.561	04-35450	\$ 5,230,114
Subtotal Pass-Through Programs			<u>5,230,114</u>
Passed through California Department of Education:			
Child Nutrition School Programs Breakfast	10.553	19-64733	50,243,278
Child Nutrition School Programs Lunch	10.555	19-64733	141,814,244
Child Nutrition School Programs Snack	10.557	19-64733	4,796,726
Donated Food Commodities	10.555	19-64733	10,995,273
Child Nutrition Child Care Food Program Claims	10.558	19-2016-3A & C	7,198,213
Child Nutrition Child Care Food Program – Cash in Lieu of Commodities	10.558	19-2016-3A & C	340,550
Child Nutrition Summer Food Services Program Operations	10.559	6473-W	1,217,546
Child Nutrition Summer Food Services Program Sponsor Administration	10.559	6473-W	127,043
Forest Reserve	10.665	Not available	27,296
Subtotal Pass-Through Programs			<u>216,760,169</u>
Total U.S. Department of Agriculture			<u>221,990,283</u>
U.S. Department of Commerce:			
Passed through Corporation for Public Broadcast Public Broadcasting Programs	11.550	1714	564,368
Subtotal Pass-Through Programs			<u>564,368</u>
Total U.S. Department of Commerce			<u>564,368</u>
U.S. Department of Housing & Urban Development:			
Passed through County of Los Angeles Community Development Block Grant	14.218	101564	15,868
Passed through City of Carson Carson Guidance	14.218	Not Available	7,776
Family Resource Center Healthy Start	14.227	Not Available	5,902
Passed through Children's Collective, Inc Community Development Block Grant-Youth Opportunities Programs	14.227	Not Available	128,531
Children Collective Youth Program	14.227	Not Available	36,331
Passed through Community Partner Development Corp. Youth Building Program	14.243	200311	4,251
Subtotal Pass-Through Programs			<u>198,659</u>
Total U.S. Department of Housing & Urban Development			<u>198,659</u>
U.S. Department of Justice:			
Community Oriented Policing Services Universal Hiring Program	16.710	2002SHWX0658	7,068
Community Oriented Policing Services in Schools Award	16.710	2004SHWX0121	532,748
Subtotal Direct Program			<u>539,816</u>
Passed through City of Los Angeles: Los Angeles Better Educated Students for Tomorrow (BEST)	16.541	C-104621	679,672
Subtotal Pass-Through Programs			<u>679,672</u>
Total U.S. Department of Justice			<u>1,219,488</u>
U.S. Department of Labor:			
Passed through California Department of Education: Employment Development Department Trade Act – East LA Skill Center	17.245	Contract # 990098	29,103
Employment Development Department Trade Act – East LA Occupational Center	17.245	Contract # 200344	70,413
Employment Development Department Trade Act – Harbor Occupational Center	17.245	Contract # 200348	3,756
Passed through County of Los Angeles: Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	98G429	28
Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	200105	5,902
Patient & Health Care Setting Education Services	17.258	200349	514,452

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Fiscal Year ended June 30, 2006

<b>Federal grantor/pass-through grantor/program title</b>	<b>Catalog of federal domestic assistance number</b>	<b>Grantor or pass-through entity ID number</b>	<b>Federal expenditures</b>
Passed through City of Los Angeles:			
Workforce Investment Act – Youth	17.259	108762	\$ 689,945
Passed through Carson/Lomita/Torrance Private Industry Council:			
Welfare to Work	17.259	C2005-142	50,520
Workforce Investment Act – Youth	17.259	C2005-139	32,636
Passed through Goodwill Industries of Southern California:			
Workforce Investment Act – Youth	17.259	200366	30,503
Passed through Los Angeles Urban League			
Workforce Investment Act – Youth	17.259	T3250	39,344
Passed through Mexican Opportunity Foundation:			
Workforce Investment Act – Youth	17.259	200356	2,447
Workforce Investment Act – Youth	17.259	200357	2,859
Passed through Para Los Ninos			
Workforce Investment Act – Youth	17.259	T3246-B	142,936
Passed through University of California, Los Angeles:			
Workforce Investment Act – Youth	17.259	4952GGB548	36,904
Workforce Investment Act – Youth	17.259	4952GGB551	57,390
Passed through Watts Labor Community Action Council:			
Workforce Investment Act – Adult	17.258	108435	83,040
Workforce Investment Act – Dislocated Worker	17.260	108435	60,131
Workforce Investment Act – Youth	17.259	108436	87,145
Workforce Investment Act – Youth	17.259	PY2005-2006	42,431
Passed through HUB Cities Consortium:			
Workforce Investment Act – Adult	17.258	200354	27,115
Workforce Investment Act – Adult	17.258	200355	14,224
Workforce Investment Act – Adult	17.258	200386	11,571
Passed through Catholic Charities of Los Angeles:			
Workforce Investment Act – Youth	17.259	Not Available	40,397
Workforce Investment Act – Youth	17.259	Not Available	39,343
Passed through Homecare Workers Training Center:			
Workforce Investment Act-Nurse Assistant-East			
Los Angeles Occupational Center	17.258	200369	14,122
Workforce Investment Act-Nurse Assistant-Fremont			
Community Adult School	17.258	200372	13,927
Subtotal Pass-Through Programs			<u>2,142,584</u>
Total U.S. Department of Labor			<u>2,142,584</u>
U.S. Department of Transportation:			
School Safe Traffic Zone	20.600	OP0406	35,995
School Safe Traffic Zone	20.600	PS0607	117,325
School Safe Traffic Zone	20.600	PT0612	34,250
Subtotal Direct Programs			<u>187,570</u>
Passed through Governor's Office of Emergency Service:			
Hazardous Materials Emergency Preparation	20.703	HMECA4033120	24,802
Subtotal Pass-Through Programs			<u>24,802</u>
Total U.S. Department of Transportation			<u>212,372</u>
National Science Foundation :			
Urban Systemic Initiative	47.076	ESI-0085037	1,800,233
Urban Systemic Initiative	47.076	896G976/X259722	537,173
Subtotal Direct Programs			<u>2,337,406</u>
Total National Science Foundation			<u>2,337,406</u>
U.S. Environmental Protection Agency:			
Environmental Protection Agency – Indoor Air Quality	66.034	XA-97970801-1	12,236
Environmental Protection Agency – Chemical Safety	66.808	XA-96921101-0	25,000
Subtotal Direct Programs			<u>37,236</u>
Total U.S. Environmental Protection Agency			<u>37,236</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Fiscal Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Catalog of federal domestic assistance number	Grantor or pass-through entity ID number	Federal expenditures
U.S. Department of Education:			
Indian Education	84.060	B060A050283	\$ 260,835
M. Waters Dental Asst Training Program	84.116	P116Z030224	196,108
ESEA Magnet School Assistance	84.165	S165A020001	912,884
Safe and Drug Free Schools	84.184	S184B020585	52,251
Safe and Drug Free Schools – National Program	84.184	Q184E030019	206,884
Improving America's Schools Act Title VII – Bilingual	84.195	T195A990053	112,956
Funds for Improvement of Ed. – Elementary and Secondary Schools	84.215	Q215E030199	315,421
Funds for Improvement of Ed. – Elementary and Secondary Schools	84.215	Q215E040418	508,854
Small Learning Communities	84.215	S215L022072	226,314
Small Learning Communities	84.215	V215L030035	5,163
Small Learning Communities	84.215	V215L032230	860,736
Small Learning Communities	84.215	V215L040233	82,521
Small Learning Communities	84.215	V215L042114	817,449
Small Learning Communities	84.215	V215L042267	504,538
Small Learning Communities	84.215	V215L052108	1,401,798
Teaching American History Grants	84.215	S215X020191	119,366
Teaching American History Grants	84.215	U215X030096	399,635
Bilingual Ed – Comprehensive School Grants	84.290	T290U000052	377,864
Bilingual Ed – Comprehensive School Grants	84.290	T290U000127	65,974
Bilingual Ed – Comprehensive School Grants	84.290	T290U010407	258,811
Bilingual Ed – Comprehensive School Grants	84.290	T290U010410	323,389
Bilingual Ed – Comprehensive School Grants	84.290	T290U010488	305,822
Bilingual Ed – Comprehensive School Grants	84.290	T290U990103	918
Foreign Language Assistance	84.293	T293B010103	2,535
Foreign Language Assistance	84.293	T293B030111	181,612
Foreign Language Assistance	84.293	T293B030116	145,317
Foreign Language Assistance	84.293	T293B030123-04	202,374
Foreign Language Assistance	84.293	T293B030169	59,195
Foreign Language Assistance	84.293	T293B040179	174,841
Gaining Early Awareness and Readiness for Undergraduate Prog. (Gear Up)	84.334	P334A000061-05	1,145,660
Gear Up	84.334	P334A050008	623,120
Gear Up	84.334	P334A050178	1,624,724
Gear Up	84.334	P334A050205	502,362
Gear Up	84.334	P334A050217	542,515
Gear Up	84.334	P334A990361-04	208,967
National Council for Community and Education Partnership (NCCEP)/SBC Gear Up – Madison	84.334	NGU83	10,125
NCCEP/SBC Gear Up – Marshall	84.334	P334A990361	50,000
NCCEP/SBC Gear Up – North Hollywood	84.334	GU3	17,209
Los Angeles Early Deciders	84.336	P336C050011	121,382
Media Literacy	84.351	S351B020056-03	8,109
Los Angeles Better Educated Students for Tomorrow (BEST)	84.215K	U215K050324	193,540
Subtotal Direct Programs			<u>14,130,078</u>
Passed through California State University at Los Angeles – University Auxiliary Services: Project Plus – California State University			
	84.324	220985	36,390
Passed through California Department of Education:			
Workforce Investment Act – Adult Basic Ed	84.002	13978	803,925
Workforce Investment Act – Adult Basic Ed	84.002	14109	709
Workforce Investment Act – Adult Basic Ed	84.002	14508	12,526,310
Workforce Investment Act – Adult Basic Ed	84.002	14794	1,378,993
Title I Program Improvement	84.010	14106	31
Elementary and Secondary Education Act, Title I	84.010	14329	472,172,837
Elementary and Secondary Education Act, Title I Delinquent	84.010	14357	783,361
Elementary and Secondary Education Act, Title I Neglected	84.010	14329	2,940,322
School Assist & Intervention Team	84.010	14417	550,824
School Assist & Intervention Team	84.010	14579	6,255,951
Title I Program Improvement – District Intervention	84.010	14581	7,202,005

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Fiscal Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Catalog of federal domestic assistance number	Grantor or pass-through entity ID number	Federal expenditures
Migrant Ed – Regular & Summer	84.011	13628	\$ 819,122
Special Ed:IDEA Basic Local Assistance Entitlement	84.027	01-3379-6473-01	121,625,183
Special Education Handicapped SFP	84.027	13613	174,306
Special Education Handicapped SFP	84.027	13682	12,285,647
Special Education Handicapped SFP	84.027	14466	12,845
Regional Occupational Center College Work Study	84.033	200396	212,220
Carl D. Perkins – General Education	84.048	13924	8,839,921
Carl D. Perkins – Vocational and Technical Education	84.048	13923	3,563,815
IDEA Preschool	84.173	14688	82,999
Preschool Expansion Grant	84.173	13430	5,352,857
Preschool Expansion Grant	84.173	13431	13,477
Infant & Toddler	84.181	23761	1,160,745
Title IV – Safe and Drug Free Schools-State	84.186	14347	3,706,068
Homeless Education Project	84.196	14332	157,374
Even Start Family Literacy Grants	84.213	14331	48,708
Twenty-first Century Learning Centers	84.287	14349	20,762,627
Twenty-first Century Learning Centers	84.287	14350	29,999
Twenty-first Century Learning Centers	84.287	14535	1,058,412
Twenty-first Century Learning Centers	84.287	14681	4,995,402
Improving America's Schools Act – Title V Innovative Strategies	84.298	14354	28,075,492
No Child Left Behind (NCLB) Title II – Enhancing Education Through Technology-Competitive	84.318	14368	5,020,894
No Child Left Behind Title II – Enhancing Education Through Technology – Formula	84.318	14334	3,177,305
Reading First	84.357	14328	43,388,514
Title III, Limited English Proficient Student Program	84.365	14346	27,152,452
No Child Left Behind Title II-B – Math	84.366	14512	926,090
No Child Left Behind Title II-A – Teacher Quality	84.367	14341	54,339,765
Student Achievement Reading (STAR)	84.002A	02239	5,860
Special Ed. Handicapped SFP	84.027(A)	14466	3,800
Comprehensive School Reform	84.332A	14325	12,086,367
Passed through Los Angeles County Office of Education: Arts in Education – Arts in the Middle (AIM) Project	84.351D	U351D050021	29,098
Passed through State Department of Rehabilitation: Workability II – Regional Occupational Center	84.126	24202	508,348
Rehab-Transition Partnership Program	84.158	24724	1,117,944
Passed through University of California at Los Angeles: California State Gear Up	84.334	04-GEARUP552	16,894
California State Gear Up 06	84.334	05GEARUP612	5,703
Passed through Berkeley Policy Associates Berkeley Policy Associates Source Program	84.305	76555093	16,726
Subtotal Pass-Through Programs			<u>865,424,637</u>
Total U.S. Department of Education			<u>879,554,715</u>
U.S. Department of Health & Human Services:			
Substance Abuse and Mental Health Service Administration (SAMHSA)	93.243	U9SM54286A	208,481
SAMHSA-Trauma School Adaption	93.243	U9SM57283A	245,229
School Health Program	93.938	U87/CCU922664	438,117
Subtotal Direct Programs			<u>891,827</u>
Passed through County of Los Angeles:			
Department of Health Services-Vocational Nursing Educational Services	93.178	H-700243	127,705
Refugee Act of 1980	93.576	CONT# 30343	39,208
Department of Health Services-Adult Education Services	93.822	H700173-1	73,587
Department of Health Services-Adult Education Services	93.822	H700173-2	41,475
Passed through California Department of Education:			
Infant Toddler Resource Program	93.575	CCAP-4129/13942	113,253
Child Care and Development Fund School Resource	93.575	CSCC-4088/13941	74,004
California Instructional Materials and Supplies	93.575	CIMS-5250/14130	18,379

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Fiscal Year ended June 30, 2006

<b>Federal grantor/pass-through grantor/program title</b>	<b>Catalog of federal domestic assistance number</b>	<b>Grantor or pass-through entity ID number</b>	<b>Federal expenditures</b>
Passed through California Department. of Health Services:			
Child Care Center	93.596	FCTR 4059	\$ 15,149,903
Medi-Cal Billing Option	93.778	940830	9,702,774
Passed through LA County of Education:			
Medi-Cal Administrative Activity	93.778	CS0501360	5,511,518
Passed through Rand Corporation			
Children Exposed To Violence	93.242	9920050094	53,078
Passed through Chicana Services Action Center, Inc.			
Chicana English as a Second Language/Vocational Education Program	93.569	200378	22,897
Chicana English as a Second Language/Vocational Education Program #2	93.569	200377	18,062
Passed through City of Los Angeles			
CalWorks Youth Jobs Programs	93.593	107435	1,047,101
Subtotal Pass-Through Programs			<u>31,992,944</u>
Total U.S. Department of Health & Human Services			<u>32,884,771</u>
Corporation for National & Community Service:			
Passed through National Council for Social Studies:			
Civic Connection Learn and Serve – National Council for Social Services	94.004	Not available	1,408
Passed through California Department of Education:			
CalServe – Learn and Serve America	94.004	13161	216,238
Subtotal Pass-Through Programs			<u>217,646</u>
Total Corporation for National & Community Service			<u>217,646</u>
U.S. Department of Homeland Security:			
Passed through Governor's Office of Emergency Services:			
Federal Emergency Management Agency (FEMA) – Public Assistance	83.544	PA037-91146	5,783,284
FEMA – Hazard Mitigation	83.548	PA037-91146	198,500
FEMA – 1577-DR2005 Winter Storms	97.036	10014	16,806
FEMA – Hazard Mitigation Grant	97.039	10041	3,057
Subtotal Pass-Through Programs			<u>6,001,647</u>
Total U.S. Department of Homeland Security			<u>6,001,647</u>
U.S. Department of Military & Veterans Affairs:			
Direct Program:			
Reserve Officer Training Corps Vitalization Act	12.400	Not available	2,187,044
Subtotal Direct Program			<u>2,187,044</u>
Total U.S. Department of Military & Veterans Affairs			<u>2,187,044</u>
Total Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards			<u>\$ 1,149,548,219</u>

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

**(1) General**

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal financial assistance programs for the Los Angeles Unified School District (District). The District's reporting entity is defined in the notes to the District's basic financial statements.

**(2) Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the modified-accrual basis of accounting, as described in note 1 of the notes to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the District's basic financial statements but agrees in all material respects.

**(3) Noncash Assistance**

Included in the schedule of expenditures of federal awards is (CFDA #10.555) \$10,995,273 of donated food commodities received from the U.S. Department of Agriculture, passed-through the State of California, during the year ended June 30, 2006.

**(4) Subrecipient Awards**

Of the federal expenditures presented in the schedule of expenditures of federal awards, the District provided a significant amount of funding to various subrecipients. Due to the extensive number of federal programs and volume of subrecipients, it is not practical to display the detailed subrecipient information in the schedule of expenditures of federal awards.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Instructional Time Offered

Year ended June 30, 2006

<u>Grade level</u>	<u>1982-1983 Actual minutes offered</u>	<u>1986-1987 minutes requirements</u>	<u>2005-2006 Actual minutes offered</u>	<u>Number of days traditional calendar</u>	<u>Number of days multi-track calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	36,000	180	163	Complied
Grades 1 to 3	48,800	50,400	55,100	180	163	Complied
Grades 4 to 6 (1)	48,800	54,000	55,100	180	163	Complied
Grades 7 to 8 (2) (3)	62,160	54,000	62,160 or 65,300	180	163	Complied
Grades 9 to 12 (3)	62,160	64,800	65,300	180	163	Complied

- (1) Elementary schools only.
- (2) Middle schools with grade configurations 6 – 8 approved for common planning time have at least 62,160 yearly instructional minutes. Middle schools with grade configurations 6 – 8 not approved for common planning time have at least 65,300 yearly instructional minutes.
- (3) Beginning 2001-2002, the number of shortened and minimum days available to three-track middle schools not approved for common planning time and three-track high schools was reduced from 20 to 18 shortened days and from 10 to 9 minimum days.

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Financial Trends and Analysis

Year ended June 30, 2006

(Dollars in thousands)

	<b>2006-2007 Budgeted</b>	<b>2005-2006* Actual</b>	<b>2004-2005 Actual</b>	<b>2003-2004 Actual</b>	<b>2002-2003 Actual</b>
General Fund:					
Revenues	\$ 6,978,770	\$ 6,472,011	\$ 6,204,479	\$ 5,848,129	\$ 5,799,442
Other Financing Sources	127,977	93,438	251,345	27,893	284,981
Total Revenues and Other Financing Sources	<u>7,106,747</u>	<u>6,565,449</u>	<u>6,455,824</u>	<u>5,876,022</u>	<u>6,084,423</u>
Expenditures:					
Other Financing Uses	6,944,418	6,404,053	6,094,131	6,022,550	5,856,816
	49,514	76,453	336,106	108,529	230,932
Total Expenditures and Other Financing Uses	<u>6,993,932</u>	<u>6,480,506</u>	<u>6,430,237</u>	<u>6,131,079</u>	<u>6,087,748</u>
Change in Fund Balance	112,815	84,943	25,587	(255,057)	(3,325)
Beginning Fund Balance*	434,512	349,569	323,982	579,039	582,364
Ending Fund Balance	<u>\$ 547,327</u>	<u>\$ 434,512</u>	<u>\$ 349,569</u>	<u>\$ 323,982</u>	<u>\$ 579,039</u>
Available Reserves**	\$ 71,538	\$ 148,748	\$ 133,403	\$ 63,037	\$ 106,453
Designated for Economic Uncertainties	\$ 71,538	\$ 67,638	\$ 33,269	\$ 31,669	\$ 87,929
Undesignated Fund Balance	\$ —	\$ 81,110	\$ 100,134	\$ 31,368	\$ 18,524
Available Reserves as a Percentage of Total Expenditures and Other Financing Uses	1.02%	2.30%	2.07%	1.03%	1.75%
Total Long-Term Debt	\$ 7,296,478	\$ 7,053,181	\$ 5,935,608	\$ 5,755,078	\$ 5,765,979
Average Daily Attendance (ADA) at P-2	633,445	722,541	745,779	779,646	778,875

The General Fund has maintained a positive ending fund balance for the past four fiscal years presented in this schedule.

For a district this size, the State has recommended available reserves to be at least 1% of total General Fund expenditures and other financing uses. During fiscal years 2003-2004 and 2004-2005, amounts designated for economic uncertainties were temporarily reset at one-half of the minimum State reserve level of one percent. The District has been able to meet these requirements for the past four fiscal years.

The long-term debt increase in 2005-2006 was primarily caused by the issuance of General Obligation Bonds, Election of 2004, Series E (\$400.0 million ) dated August 10, 2005; General Obligation Bonds, Election of 2004, Series F (\$500.0 million) dated February 16, 2006; and General Obligation Bonds, Election of 2005, Series A (\$56.8 million), Series B (\$80.2 million), Series C (\$210.0 million) and Series D (\$47.4 million), dated February 22, 2006.

\* Budgeted beginning fund balance includes audit adjustment for Fiscal Year 2005-2006.

\*\* Available reserves consist of all undesignated fund balances and funds designated for economic uncertainties.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule to Reconcile the Annual Financial Budget Report (SACS)  
with Audited Financial Statements

Year ended June 30, 2006

(in thousands)

	<u>All fund types</u>
June 30, 2006 Unaudited Actual Financial Reports Fund Balances	\$ 2,636,003
Adjustment: Record principal and income of investment intended to pay future COPs debt service	<u>5,652</u>
June 30, 2006 Audited Financial Statement Fund Balances	<u><u>\$ 2,641,655</u></u>

See accompanying independent auditors' report.

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Notes to State and Federal Compliance Information

Year ended June 30, 2006

### (1) Purpose of Schedules

#### (a) *Schedule of Average Daily Attendance*

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

#### (b) *Schedule of State and Federal Financial Assistance*

To comply with OMB Circular A-133, this schedule was prepared by the District to disclose the expenditures of all federal funded programs. Expenditures are reported on the modified-accrual basis of accounting as described in the notes to the basic financial statements.

#### (c) *Schedule of Instructional Time Offered*

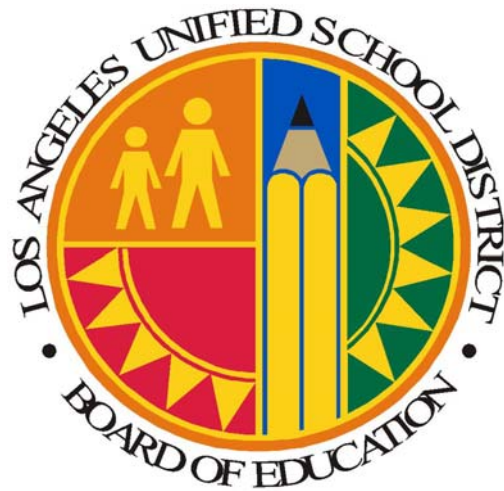
The District has received incentive funding for increasing instructional time as provided by the Incentive for longer instructional day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

#### (d) *Schedule of Financial Trends and Analysis*

This schedule focuses on financial trends by displaying past years' data along with current budget information and evaluates the District's ability to continue as a going concern for a reasonable period of time.

#### (e) *Reconciliation of Unaudited Actual Financial Reports with Audited Financial Statements*

This schedule provides the information necessary to reconcile the differences between fund balances reported on the unaudited actual financial reports and the audited financial statements.





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**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Honorable Board of Education  
Los Angeles Unified School District:

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings FS-06-01 through FS-06-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the District in a separate letter dated December 11, 2006.

This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2006



**KPMG LLP**  
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**Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

The Honorable Board of Education  
Los Angeles Unified School District:

**Compliance**

We have audited the compliance of the Los Angeles Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the District's compliance with Vocational Education – Basic Grants to States Title I Grants to Local Educational Agencies, Safe and Drug-Free Schools and Communities, Fund for the Improvement of Education, Twenty First Century Community Learning Centers, State Grants for Innovative Programs, Education Technology State Grants, Gaining Early Awareness and Readiness for Undergraduate Programs, Reading First State Grants, English Language Acquisition Grants and Improving Teacher Quality State Grants regarding matching, level of effort, and earmarking – supplement not supplant requirements, and Title I Grants to Local Educational Agencies, Safe and Drug-Free Schools and Communities, Twenty First Century Community Learning Centers, State Grants for Innovative Programs, Education Technology State Grants, English Language Acquisition Grants, and Improving Teacher Quality State Grants regarding matching, level of effort, and earmarking – maintenance of effort requirements, nor were we able to satisfy ourselves as to the District's compliance with those requirements by other auditing procedures.

As described in findings F-06-01, F-06-07, F-06-13, F-06-14, and F-06-21 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs, cash management, matching, earmarking, and procurement that are applicable to the programs described in those findings. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the District's compliance with matching, level of effort, and earmarking – supplement not supplant requirements, and matching, level of effort, and earmarking – maintenance of effort requirements, and except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-06-02, F-06-03, F-06-04, F-06-05, F-06-08, F-06-9, F-06-10, F-06-11, F-06-12, F-06-16, F-06-17, F-06-18, F-06-19, F-06-20, F-06-22, F-06-24, F-06-25, F-06-26, F-06-27, F-06-28, F-06-29, F-06-30, F-06-32, F-06-33, F-06-34, F-06-35, F-06-36, and F-06-37.

### **Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items F-06-01, F-06-06, F-06-13, F-06-15, F-06-17, F-06-18, F-06-19, F-06-21, F-06-23, F-06-24, F-06-25, and F-06-31.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.



This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2006



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

## Auditors' Report on State Compliance

The Honorable Board of Education  
 Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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* (the Guide). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

	<b>Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Educational Agencies</b>	<b>Procedures performed</b>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Yes
Instructional Time for:		
School Districts	4	Yes
County Offices of Education	3	Not applicable

	<b>Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Educational Agencies</b>	<b>Procedures performed</b>
Community Day Schools	9	Yes
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Not applicable
Grades 9-12 only	1	Not applicable
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter Schools with Only One School Serving K-3	4	Not applicable
Contemporaneous Records of Attendance for charter schools	1	Yes
Nonclassroom-based Instruction/Independent Study for charter schools	15	Not applicable
Additional Nonclassroom-based Instruction for charter schools	1	Not applicable
Determination of Funding for Nonclassroom- based Instruction for charter schools	3	Not applicable
Annual Instructional Minutes – Classroom Based for charter schools	3	Yes

Based on our audit, we found that, for the items tested, the District complied with the state laws and regulations referred to above, except as described in the schedule of findings and questioned costs relating to state awards section of this report. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, State Controller's Office, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 11, 2006

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**(1) Summary of Auditors' Results**

***Basic Financial Statements***

- (a) The type of report issued on the basic financial statements: **Unqualified opinion.**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **Yes.**

Material weaknesses: **None noted.**

- (c) Noncompliance which is material to the basic financial statements: **None noted.**

***Federal Awards***

- (d) Reportable conditions in internal control over major programs: **Yes.**

Material weaknesses: **None noted.**

- (e) The type of report issued on compliance for major programs: **Qualified opinion.**
- (f) Any audit findings that are required to be reported under Section .510(a) of OMB Circular A 133: **Yes.**
- (g) Major programs:

- U.S. Department of Agriculture
  - Child Nutrition Cluster:
    - CFDA 10.553 School Breakfast Programs
    - CFDA 10.555 National School Lunch Programs
    - CFDA 10.559 Summer Food Service Program for Children
  - CFDA 10.558 Child Nutrition Child and Adult Care Food Programs
  - CFDA 10.561 State Administrative Matching Grants for Food Stamp Programs
- U.S. Department of Homeland Security
  - Public Assistance Grants:
    - CFDA 83.544 Public Assistance Grants
    - CFDA 97.036 Disaster Grants – Public Assistance
- U.S. Department of Education
  - CFDA 84.048 Vocational Education – Basic Grants to States
  - CFDA 84.010 Title I Grants to Local Educational Agencies
  - CFDA 84.186 Safe and Drug-Free Schools and Communities

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- CFDA 84.215 Fund for the Improvement of Education
- CFDA 84.287 Twenty-First Century Community Learning Centers
- CFDA 84.298 State Grants for Innovative Programs
- CFDA 84.318 Education Technology State Grants
- CFDA 84.334 Gaining Early Awareness and Readiness for Undergraduate Programs
- CFDA 84.357 Reading First State Grants
- CFDA 84.365 English Language Acquisition Grants
- CFDA 84.367 Improving Teacher Quality State Grants
- Special Education Cluster:
  - CFDA 84.027 Special Education – Grants to States
  - CFDA 84.173 Special Education – Preschool Grants
- U.S. Department of Health and Human Services
  - Child Care Cluster:
    - CFDA 93.575 Child Care and Development Block Grants
    - CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,448,600.**

(i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A 133: **No.**

***State Awards***

Type of auditors' report issued on compliance for state programs: **Qualified opinion.**

**(2) Findings Related to the Basic Financial Statements Reporting in Accordance with *Government Auditing Standards***

***Finding FS-06-01 –Lack of System Integration***

**Finding Type 3000**

***Observation***

LAUSD's business critical applications such as Facilities Information System (IFS), PPS (Payroll), Human Resource System (HRS), Payroll Time Reporting System (PTRS), and Student Information System (SIS) currently operate in silos. The key payroll applications (PPS, HRS, and PTRS) reside on different mainframe-based systems, requiring integration through various interfacing methods. The HRS, PTRS, PPS, and IFS systems are all housed on the same IBM mainframe unit.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***Impact***

The payroll application integration requires manual intervention at multiple points, as well as the maintenance of several job control streams. Manual intervention at key points in the payroll process increases the risk of human error and inefficiencies.

***Recommendation***

We are aware management is addressing this issue with the implementation of SAP in the current year. Management should work closely with the implementation team to monitor the process and ensure the appropriate controls integration is incorporation into the effort.

***Management Response***

As noted above, the District has procured an Enterprise Resource Planning (ERP) software package and implementation services to replace its major legacy systems, including PPS, HRS, and PTRS. As an integrated system, there will be limited interfaces involved in these processes in the future, and therefore little or no manual intervention. The PPS/PTRS/HRS replacement components of the ERP solution are scheduled for implementation January 1, 2007.

***Finding FS-06-02 – Periodic Review of Users’ Access***

**Finding Type 3000**

***Observation***

HRS and PTRS end user access is not reviewed on a periodic basis to help ensure that access to the applications are restricted based on the user’s job function. Additionally, a review of all of the mainframe users for potential segregation of duties conflicts is not performed for IFS, HRS, PTRS, and PPS systems.

***Impact***

Without periodic review of user access rights, a user’s privileges may not commensurate with his/her job responsibility.

***Recommendation***

We recommend that management perform at least a semiannual review of user access profile to ensure that users are provided with only the access required by their job functions. The review should also consider potential segregation of duties violation that may arise as a result of assigning users to multiple security groups/profiles.

***Management Response***

Segregation of duties reviews have been an integral part of the ERP implementation preparation. All user roles within the ERP system are reviewed by a team of business process specialists, and are placed in a separation of duty matrix. Beginning with the HR/Payroll implementation in January 2007, the District will be moving to position-based security rather than person-based security for most employees, which will help ensure that access is driven by the job someone holds and their related responsibilities.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

The architecture of the new ERP system also assists the District in this regard as programmers have access only to the sandbox and development environments. All updates to the quality assurance, training, and production environments must be approved by the Project Management Office and can only be implemented by a member of a separate Basis Team, not the developers or the development managers. The HR/Time reporting functions of the ERP system will be operational by January 1, 2006, and the ERP system will be fully implemented July 1, 2007.

#### *Finding FS-06-03 – System User Account Management*

**Finding Type:** 3000

#### *Observation*

During our review of the user account management process (e.g., granting new users access and revoking terminated employee's access to District's financial systems), we noted that the process currently in place does not follow the Company's established policies and procedures. We identified the following instances:

- Two Request for User ID Authorization (ITD082594A) forms, where the employees signed the form both as the requestor and as the manager, resulting in a segregation of duties conflict.
- The Request for User ID Authorization (ITD082594A) forms were not submitted for 30 terminated user accounts.
- The RACF accounts for 14 terminated employees has not been disabled and/or revoked, thus, the terminated user accounts are still active.
- 42 users have inappropriate access to post journal entries.
- 1 user has inappropriate access to modify the ESIS source code.
- 7 users have inappropriate access to modify the SSIS source code.
- 14 users have inappropriate access to update the RSRC table.
- 4 users have inappropriate access to update the PROG table.
- 7 users have inappropriate access to modify the ACES source code.
- 64 users have inappropriate access to add, modify, and delete data within the PADU table. This issue was identified last year. Please refer to the 2005 PIO document for a listing of the users.
- One user does not have appropriate access to interface file between BRASS and IFS.
- Two users are inappropriately assigned with the RACF 'SPECIAL' and 'STAND' (PPPS) attributes.
- One user has inappropriate 'STND' (IFS and HRS) access.
- The Food Service Application does not provide logical security to govern system functionality. All user accounts for the application carry the same authorization privileges and, as a result, all associated employees have read/write access on the application and the potential to make changes to the application source code.



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- One user does not have appropriate access to the production libraries for the PPPS, HRS, and IFS applications; another user does not have appropriate access to production library for the IFS and HRS systems; and two additional have inappropriate access to the PPPS production libraries.
- PTRS Senior Programmers have the ability to develop, test, and approve changes for migration within the Endeavor software, resulting in a segregation of duties conflict.
- We noted the District has not documented the procedures for adding, modifying, and deleting user access to PPPS.
- The process of reviewing IFS users and their associated access privileges is not formally documented.

We identified a lack of segregation of duties between changing and approving changes to employee assignments. Based on our review of application security within the HRS system, we identified the existence of two levels of security over creating an assignment transaction within the HRS system. An assignment identifies and instructs how an employee is to be paid. Individuals assigned with the PERTECH profile have the right to create assignments for an employee. Individuals assigned with the PERAUDT profile have the right to approve an assignment created by the PERTECH user. Individuals assigned with the PERBOTH profile have the ability to create and approve an assignment. Hence, one individual would have the right and privilege to approve their own work. Although this profile is reserved for only supervisory and management-level personnel, it violates the control of segregation of duties between changing and approving changes to the employee payroll master data.

We determined that system administration of the BRASS system is performed by Budget Branch personnel. Users with access to create, modify, and delete user accounts also perform interface process from BRASS to IFS system. In addition, such users resolve errors that are flagged by the system as part of the interface process. We identified that a lack of segregation of duties exists between system administration and budgeting functions within the BRASS system. We could not determine at this time if the BRASS system has the capability to segregate such access; however, lack of segregation of duties exists.

#### ***Impact***

Lack of proper logical security can potentially expose the District to an increased risk of unauthorized access to transactions and data in the absence of effective controls over assigning users' access and revoking terminated employee's access. This may also lead to potential security violations of sensitive and critical data.

#### ***Recommendation***

We recommend that the District take measures to help ensure that appropriate segregation of duties are in place and that users are only granted access based on their job responsibilities after appropriate approvals are obtained. Additionally, management should also monitor controls over the process for revoking terminated employee's access in a timely manner.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### ***Management Response***

As stated previously, segregation of duties reviews have been an integral part of the ERP implementation preparation. All user roles within the ERP system are reviewed by a team of business process specialists, and are placed in a separation of duty matrix.

The system architecture of the new ERP system also assists the District in this regard as programmers have access only to the sandbox and development environments. All updates to the quality assurance, training, and production environments must be approved by the Project Management Office and can only be implemented by a member of a separate Basis Team, not the developers or the development managers. The HR/Time reporting functions of the ERP system will be operational by January 1, 2006, and the ERP system will be fully implemented July 1, 2007.

With respect to controls for revoking terminated employees, the new ERP system will be integrated with the District's Single Sign On system, which revokes employee login accounts upon separation/termination from the District. Users will therefore have their logins disabled upon separation.

#### ***Finding FS-06-04 – Program Change Approvals and Documentation***

**Finding Type:** 3000

#### ***Observation***

During our walkthrough of the change management process, we identified the following instances where requests for changes were not approved by the appropriate manager:

##### **Request Approvals**

- One sample Migration Request Form (PAY121798A) where the Senior Programmer, Functional Manager, and Director did not approve the form, as the Programmer, signed in place of these users.
- Three HRS changes, 4 IFS changes, and five PPPS (Payroll) changes did not have evidence of the 'User Modification Request' forms.
- One HRS change (MOD-R 7585) lacked the appropriate approver's signature.
- One HRS (7585) and 10 Payroll (7414, 7488, 7575, 7605, 7675, 7741, 7843, 7844, 7948, and 8040) 'Migration Request Forms' were missing appropriate approvers' signatures.

##### **Request Documentation**

- Programmers do not maintain evidence and documentation of the change's testing and results.
- Business users' approval of the test results is not documented and maintained.
- Business users' are not required to review and approve the PTRS change and project test results.
- User approval of the "Requirements" document are not documented.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- The District has not documented the process of initiating and approving IFS change requests or the process of performing a Post-Implementation review of PTRS changes.
- The emergency change process for all mainframe systems is not documented.

#### ***Impact***

Failure to document and approve change requests could result in the development and implementation of unauthorized changes. Additionally, inconsistent documentation of program changes increases the risk that changes may not be fully assessed for technical feasibility. Additionally, the lack of documenting approval dates makes it difficult to determine if the change was appropriately approved prior to its implementation.

#### ***Recommendation***

We recommend that management implement measures to help ensure that all program changes be documented and approved by an appropriate level of management and that this approval be evidenced in writing, prior to migration of the change into production.

#### ***Management Response***

The District agrees with the recommendation. A review of the cited examples shows that most were implemented as emergency changes after hours to assure production runs were successful, and appropriate emergency follow-up procedures did not exist. The Information Technology Division Business Enterprise Services Branch will work with the Data Operations Branch to develop and operationalize an emergency/after hours procedure prior to March 1, 2007. These procedures will assure that changes occurring without documented approval are reviewed and documented appropriately. In addition, each applications team's development procedures have been modified to include securing management signatures for "after the fact" of emergency changes.

The documented reference above to a "User Modification Request" form reflects an issue where this form assumes requests are submitted by an end user, and not submitted by ITD programmers to proactively avoid processing problems or create efficiency in production processing. The procedure has subsequently been modified to include ITD generated requests in MOD-R (the modification request system).

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### ***Finding FS-06-05 – System Interface Controls***

**Finding Type:** 3000

#### ***Observation***

During our test work of IT controls within the HR/Payroll process, we identified a lack of system controls to ensure the completeness of data being transferred from one system to another. During our test work over the system interfaces within the HR/Payroll process, we noted the following:

- PPS lacks adequate controls to make certain all records from the HRS Payroll Master File have been processed completely. No identifiable PPS controls for record completeness exists.
- IFS lacks adequate controls to make certain that all records from PTRS have been processed completely. No identifiable IFS controls for record completeness exists.
- After the exception report is generated, the incorrect records are manually reconciled and then entered into PPS (Payroll) system by the payroll technicians. These records are not reprocessed through the A0205 validation system. Hence, this manual validation procedure is subject to human error and possibly, malicious intent.

Due to functional limitations and the numerous interfaces that exist between key business applications, compensating manual processes have been developed to support each of the key payroll business processing.

#### ***Impact***

As a result of the current ITD payroll processing IT architecture, payroll processing is currently a labor-intensive process, supported not only by the various time reporting location reports and administrators, but also by the Payroll Services Branch, ITD programmers, ITD Data Processing, ITD Training Section Personnel, and Health Insurance Services divisions.

Manual intervention at key points in the payroll issuance process is not only inefficient, but also increases the risk of human error and inefficiencies, potentially resulting in late or incorrect payroll payments, interest penalty charges and legal, union, political or other exposures.

#### ***Recommendation***

We recommend that the District consider replacing their payroll systems and processes with an integrated payroll/human resources/benefits system. The District's approach should include the following steps:

- Conduct a benchmarking study to discover "best practices" among similarly structured organizations. The District should first analyze the reasons underlying the complexities of the current payroll business processes (e.g., union agreements, multitrack school years) and perform baseline business process reengineering, where necessary;
- Evaluate various payroll system options, including internal system implementation (client/server or mainframe), application service provider arrangement, and partial or full outsourcing arrangements for each of the payroll applications and select a solution;

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- Perform formal needs analysis / functional requirements for the proposed solution;
- Develop a migration plan, that would include project development, project management, and change management programs; and
- Reengineer business processes to support the selected solution using employee self service models to automate workflow and minimize human interaction as well as process inefficiencies;
- Implement the solution.

#### ***Management Response***

As noted above, the District has procured an ERP software package and implementation services to replace its major legacy systems, including PPS, HRS, PTRS, and IFS. As an integrated system, there will be limited interfaces involved in these processes in the future. To the extent there is any data interfaced from non-ERP systems, appropriate interface controls have been and/or will be put in place including control totals, record counts, and reconciliation procedures. PPPS/PTRS/HRS replacement components of the ERP solution are scheduled for implementation January 1, 2007.

#### **(3) Findings and Questioned Costs Relating to Federal Awards**

##### ***Finding F-06-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions***

**Finding Type:** 30000 and 50000

##### **Programs Affected**

**Child Nutrition Cluster Programs:** *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), and Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed Through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No.'s V215L032230 and V215L052108

**State Grants for Innovative Programs:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

**Education Technology State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)

**Reading First State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

**Improving Teacher Quality State Grants:** *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

### Compliance Requirement

OMB Circular A 87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected Items of Cost, Part 8, Compensation for Personal Services, Section H, Support of salaries and wages:

- Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports. Such documentary support will be required where employees work on:
  - (a) More than one federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- Personnel activity reports or equivalent documentation must meet the following standards:
  - (a) They must reflect an after the fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.

#### **Situation Noted**

During procedures performed over the District's policies and procedures over time and effort reporting in accordance with OMB Circular A-87, we noted the District's policy bulletin BUL-888 dated April 2, 2004 does require employees to complete the required semi-annual certifications, but does not give any guidance as to when they are to be completed. We also noted that many of the employees sampled that worked solely on one Federal program completed their forms only after they were requested for audit purposes based on the date they were signed.

We also noted the policy indicates the documentation should be retained at the school for five years for audit purposes, but there is no monitoring to ensure that the schools are complying with this requirement by the program personnel.

**Child Nutrition Cluster Programs:** In 20 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 30 of 30 employees sampled.

**State Administrative Matching Grants for Food Stamp Program: Reading First State Grants:** In 12 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 28 of 30 employees sampled.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

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**Title I Grants to Local Educational Agencies:** In 16 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 39 of 50 employees sampled.

**Special Education Cluster:** In 4 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 30 of 30 employees sampled.

**Vocational Education – Basic Grants to States:** In 20 of the 30 employees sampled, the District was unable to provide evidence of District payroll controls for the principal certification of the School's payroll for proper review and approval for employees that were charged to the federally funded program. In the sample of 20 employees charged to the program, 11 completed the semi-annual certification and/or multi-funded timesheets only after auditor request.

**Safe and Drug-Free Schools and Communities:** In 3 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 28 of 30 employees sampled. Further investigation of payroll exceptions noted for substitute teachers revealed the District policy does not require substitute teachers to comply with OMB Circular A-87 for multi-funded timesheets or semi-annual certifications to support time and effort reporting.

**Fund for the Improvement of Education:** In 3 of the 40 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 19 of 30 employees sampled. In addition, we noted 2 of the employees sampled contained payroll calculation errors, which were charged to the program amounting to \$2,329.

**State Grants for Innovative Programs:** In 24 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federal funded program for 28 of 30 employees sampled.

**Education Technology State Grants:** In the sample of 30 employees' payroll charged to the program, we noted 3 substitute teachers who were improperly charged to the program. Upon notification by the auditors, these expenditures were corrected by the District before the final claim was submitted. In the same payroll sample, we noted 2 professional experts who did not properly complete the professional development



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

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documentation that support the expenditure charged to the program. We also noted the District was unable to provide a semi-annual certification for 1 employee in the same sample.

**Reading First State Grants:** In 4 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federal funded program for 30 of 30 employees sampled.

**English Language Acquisition Grants:** In 8 of the 50 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 45 of 50 employees sampled. We further noted 7 of the 50 employees sampled with job titles of school psychologist and immigrant assessment center staff that were no longer allowable to be funded by the program. We also noted that 1 additional employee was charged to this program incorrectly through a coding error.

**Improving Teacher Quality State Grants:** We noted the District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federally funded program for 5 of 30 employees sampled.

**Child Care Cluster:** In 2 of the 30 employees sampled, the District was unable to provide evidence of the District payroll controls for the principal's certification of the school's payroll for proper review and approval for employees that were charged to the federally funded program. We also noted 3 of the same timesheets were not signed by employees.

In the sample of employees that were traced to the timesheets to support the hours charged to the program, we noted 12 of 25 employees hours charged did not match hours per the timesheets. Of the 12, 3 appeared to misclassifications of the categories of hours (i.e., regular pay instead of vacation or illness, etc.) with the overall total hours being correct. Of the total 3,264.5 hours sampled, we noted 8 employees' timesheet did not support 769.5 hours charged and 2 employees were under reported by 16 hours. We also noted the documentation to support the employees' hourly rate paid and charged to the program was not accurately supported for 3 of the 25 employees.

The District was unable to provide semi-annual certification and/or multi-funded timesheets to support the time charged to the federal funded program for 25 of 25 employees sampled.

**Questioned Costs:** \$706,739 (see summary below)

- **Child Nutrition Cluster Programs:** \$55,891 of \$55,891 payroll expenditures sampled
- **State Administrative Matching Grants for Food Stamp Program:** \$42,593 of \$43,493 payroll expenditures sampled
- **Title I Grants to Local Educational Agencies:** \$106,190 of \$132,250 payroll expenditures sampled
- **Special Education Cluster:** \$189,964 of \$189,964 payroll expenditures sampled

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- **Vocational Education – Basic Grants to States:** \$35,941 of \$71,313 payroll expenditures sampled
- **Safe and Drug-Free Schools and Communities:** \$10,109 of \$10,209 payroll expenditures sampled
- **Fund for the Improvement of Education:** \$36,956 of \$114,520 payroll expenditures sampled
- **State Grants for Innovative Programs:** \$53,629 of \$65,676 payroll expenditures sampled
- **Education Technology State Grants:** \$3,428 of \$68,905 payroll expenditures sampled
- **Reading First State Grants:** \$64,530 of \$64,530 payroll expenditures sampled
- **English Language Acquisition Grants:** \$43,935 of \$64,400 payroll expenditures sampled
- **Improving Teacher Quality State Grants:** \$1,632 of \$73,876 payroll expenditures sampled
- **Child Care Cluster:** \$61,941 of \$61,941 payroll expenditures sampled

#### **Recommendation**

We recommend that the District enhance controls, provide additional training and update its policy bulletin to provide more specific guidance and instructions to help ensure compliance with OMB Circular A-87.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor's findings. Bulletin BUL-888 will be reviewed and information on when the required certifications are due will be added. The District has revised applicable forms to support applicable requirements.

In addition, the District is in the process of developing a "Program Guide". The Program Guide outlines the applicable regulations and codes for each major categorical program. It also includes helpful information and websites related to the program. Prior year audit findings and the corrective actions are also included in the guide to emphasize areas that need special attention on compliance.

The District will also conduct exit presentations with the appropriate program managers to discuss the audit findings and opportunities for improvement.

The District publishes an Audit Guide for district personnel involved in the audit process. This guide outlines various procedures that must be followed and documentation to be kept. The Audit Guide will be reviewed and updated to incorporate the recommendations in this finding.

#### ***Finding F-06-02 – Allowable Costs – Approval of Non-Payroll Expenditures***

**Finding Type:** 30000 and 50000

#### **Programs Affected**

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE), Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923*

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**Reading First State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328*

**English Language Acquisition Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346*

**Improving Teacher Quality State Grants:** *Department of Education (DOE), Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341*

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

### Compliance Requirement

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Part C. Basic Guidelines:*

- Reasonable costs: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:
  - (a) Market prices for comparable goods or services.
  - (b) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government.
  - (c) Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.
- Allocable costs: A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

### Situation Noted

**Vocational Education – Basic Grants to States:** In the sample of 30 non-payroll expenditures, we noted 3 did not contain the required approval signature as part of the district control process to ensure only allowable expenditures are charged to the program. We also noted 2 expenditures that would not appear to be adequately supported in accordance with OMB Circular A-87.

**Reading First State Grants:** In the sample of 30 non-payroll expenditures, we noted 3 expenditures that would not appear to be adequately supported in accordance with OMB Circular A-87.

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**English Language Acquisition Grants:** In the sample of 50 non-payroll expenditures, we noted 5 did not contain the required approval signature as part of the District control process to ensure only allowable expenditures are charged to the program. We also noted one expenditure in the same sample that was purchased for 2 separate programs, but 100% of the expenditure was charged to only one program.

**Improving Teacher Quality State Grants:** In the sample of 30 non-payroll expenditures, we noted 3 did not contain the required approval signature as part of the District control process to ensure only allowable expenditures are charged to the program.

**Child Care Cluster:** In the sample of 30 non-payroll expenditures, we noted 2 expenditures that the District was unable to locate documentation to support the expenditure for office equipment.

**Questioned Costs:** Less than \$10,000

#### Recommendation

We recommend that the District strengthen controls by providing additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

#### Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will provide additional guidance to school sites through a bulletin and training sessions.

#### *Finding F-06-03 – Allowable Costs – Unsupported Non-Payroll Expenditures*

**Finding Type:** 30000 and 50000

#### Programs Affected

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No.s V215L032230 and V215L052108 and Project Title: Teaching American History, Award No. U215X030096

#### Compliance Requirement

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments, Part C. Basic Guidelines*, factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- Be allocable to Federal awards under the provisions of this Circular.
- Be adequately documented.
- Allocable costs: A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

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OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected items of cost, No. 15. Equipment and other capital expenditures:

- “General purpose equipment” means equipment, which is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.
- Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

#### Situation Noted

**Fund for the Improvement of Education:** In the sample of 30 non-payroll expenditures, we noted 3 expenditures that would not appear to be adequately supported in accordance with OMB Circular A-87:

- An expenditure for training and secondary education for \$54,718 was charged to the program in error.
- The District was unable to locate documentation to support expenditures for paper and supplies for \$3,997 purchased with a District P-card.
- An expenditure for \$2,119 was used to construct a wall to create a separate conference room to be used for the program. Expenditures for construction are generally unallowable without funding agency approval.

**Questioned Costs:** \$60,834 of the \$224,921 non-payroll expenditures sampled

#### Recommendation

We recommend that the District strengthen controls by providing additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

#### Views of Responsible Officials and Planned Corrective Actions

Additional training will be provided to emphasize the need to 1) review all expenditures to eliminate inappropriate charges, 2) Ensure that required approvals are obtained before making purchases of general good or capital items, 3) Retain documentation for audit purposes, and 4) Properly code expenditures.

In addition, the District is in the process of developing a “Program Guide”. The Program Guide outlines the applicable regulations and codes for each major categorical program. It also includes helpful information and websites related to the program. Prior year audit findings and the corrective actions are also included in the guide to emphasize areas that need special attention on compliance.

The District will also conduct exit presentations with the appropriate program managers to discuss the audit findings and opportunities for improvement.

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The District publishes an Audit Guide for district personnel involved in the audit process. This guide outlines various procedures that must be followed and documentation to be kept. The Audit Guide will be reviewed and updated to incorporate the recommendations in this finding.

#### ***Finding F-06-04 – Allowable Costs – Entertainment Costs***

**Finding Type:** 50000

#### **Programs Affected**

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

#### **Compliance Requirement**

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected items of cost:

- Entertainment: Costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

#### **Situation Noted**

**Twenty-First Century Community Learning Centers:** In the sample of 30 non-payroll expenditures, we noted 1 expenditure for tickets to the Los Angeles Dodgers, which would be unallowable per OMB Circular A-87.

**Questioned Costs:** \$10,074 of the \$416,005 non-payroll expenditures sampled

#### **Recommendation**

We recommend that the District improve training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

#### **Views of Responsible Officials and Planned Corrective Actions**

District agrees with the finding. Additional training has been provided on appropriate expenditures.

#### ***Finding F-06-05 – Allowable Costs – Classification of Indirect Program Expenditure as Direct***

**Finding Type:** 50000

#### **Programs Affected**

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE), Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)*

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**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

**State Grants for Innovative Programs:** *Department of Education (DOE), Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)*

#### Compliance Requirement

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, General purposes for determining allowable costs, Part E, Direct costs:

- Direct costs are those that can be identified specifically with a particular final cost objective.
- Typical direct costs chargeable to federal awards are:
  - a. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected Items of Cost, No. 15. Equipment and other capital expenditures:

- “General purpose equipment” means equipment, which is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.
- Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

#### Situation Noted

**Safe and Drug-Free Schools and Communities:** In the sample of 30 non-payroll expenditures, we noted the purchase of file cabinets that were acquired during the relocation of the program department so that they would match the other file cabinets at the District central office. We were unable to verify any approval in advance from the awarding agency. This expenditure would appear to be general purpose equipment and should not be included as part of the District’s direct program costs.

**Twenty-First Century Community Learning Centers:** We noted that 17 of the 30 samples of direct program expenditures for employee salaries were for position titles of janitor, administrative assistant, and microcomputer support assistant, which would appear to be supporting positions or indirect costs.

**State Grant for Innovative Programs:** In the sample of 30 non-payroll expenditures, we noted 6 expenditures totaling \$11,806 for general office supplies purchased for a supporting department that is fully funded by the program, however based upon the actual work performed, they would be more appropriately classified as multi-funded. Upon further investigation of the expenditures charged by that same department we noted \$187,063 of total expenditures charged during the award year were recorded as fully funded. However, the expenditures (e.g., salaries, benefits, supplies) should be allocated in accordance with the percentage of time spent on direct program purposes. Per discussion with the

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department, they estimated that 33% of the department time as dedicated to the program, therefore approximately \$123,462 of those costs would appear to be supporting indirect cost expenditures.

We also noted that \$100,000 of a \$4,178,980 mainframe computer purchase was allocated to the program as a direct program expenditure. These expenditures would not appear to be appropriately classified as direct program costs.

**Questioned Costs:** \$239,480 (See summary below)

- **Safe and Drug-Free Schools and Communities:** \$6,270 of the \$445,218 non-payroll expenditures sampled
- **Twenty-First Century Community Learning Centers:** \$9,748 of the \$20,681 non-payroll expenditures sampled
- **State Grant for Innovative Programs:** \$223,462 of the \$3,690,741 non-payroll expenditures sampled

#### **Recommendation**

We recommend that the District provide additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they have adequate knowledge of OMB Circular A-87.

#### **Views of Responsible Officials and Planned Corrective Actions**

District agrees with the finding. Additional controls will be put in place to prevent inappropriate expenditures.

***Finding F-06-06 – Allowable Costs – Controls over Calculation of Indirect Costs Charged to Program***

**Finding Type:** 30000 and 50000

#### **Programs Affected**

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed Through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**State Grants for Innovative Programs:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

#### **Compliance Requirement**

OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, general purposes for determining allowable costs, Attachment E, state and local indirect cost rate proposals

- “Predetermined rate” means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit’s fiscal year. This rate is based on an estimate of the costs to be



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incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment.

#### **Situation Noted**

**Special Education Cluster:** During procedures performed over the indirect costs charged to the federal program, we noted the District staff calculated the allowable indirect costs incorrectly for year end. The District records overlapping fiscal year awards within the same general ledger program code. The current-year grant award period runs from July 1, 2005 through September 30, 2006, with the prior year grant award period from July 1, 2005 through September 30, 2005. The District applied the indirect cost rate to the expenditures incurred between July 1, 2005 to September 30, 2005 in both the current-year and prior-year grant awards, therefore claiming the same three-month period twice.

**State Grant for Innovative Programs:** During procedures performed over the indirect costs charged to the Federal program, we noted that District staff manually input the indirect cost rate to be applied to each program grant into their Financial Reporting Database (FRDB) general ledger system, which is used to calculate the indirect costs charged to the program. We were unable to verify any review performed of the rate input into the FRDB system to ensure that the correct rate was being applied.

We noted one of the program grants (program no. 2449) was applying the prior-year approved indirect cost rate of 4.40% instead of the current-year approved rate of 4.51%. This rate and the amounts charged to the program were subsequently adjusted by District personnel upon notification by the auditors.

#### **Questioned Costs:**

**Special Education Cluster:** \$127,716

#### **Recommendation**

We recommend that the District strengthen controls to ensure that indirect cost rates are accurate and updated to ensure their correct allocation to the federally funded program.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District disagrees with this finding. The report examined by the auditor was a mid-year report for the grant. The amount was not actually entered in the General Ledger. In addition, the correct indirect cost rate was used when the year-end report was produced. Thus, there was no duplicate charge for the indirect costs and no change in the amount of money received by the District.

***Finding F-06-07 – Cash Management – Interest Income from Advances not Returned to Federal Government***

**Finding Type:** 50000

#### **Programs Affected**

**Public Assistance Grants:** *Department of Homeland Security (DHS), (CFDA 83.544), Passed Through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4*

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**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

**State Grants for Innovative Programs:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

**Education Technology State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

**Improving Teacher Quality State Grants:** *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

### Compliance Requirement

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post - Award Requirements, Section 80.21, Payment:*

- Interest earned on advances, Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

### Situations Noted

During the procedures performed over cash management, we noted the District estimates its liability for interest earned on federally funded programs. The District prepares the estimate of the liability based upon the estimated monthly program cash balance multiplied by the interest rate provided by the Division of

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School Financial Services at the County Office of Education. We noted the District reduces its estimated interest liability by offsetting for estimated interest due back for months which had a negative program cash balance.

We also noted the District did not update the rate used in the last three months of the estimation calculation from the initial estimated rate of 4.27% to the actual rate of 4.86%.

**Public Assistance Grants:** During the procedures performed over Cash Management, we noted that an estimated \$194,512 was earned in interest income from the remaining balance on a \$76 million program cash advance received in 1996. The excess interest was not remitted to the federal government. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$9,932.

**Title I Grants to Local Educational Agencies:** During the procedures performed over Cash Management, we noted that an estimated \$2,097,184 was earned in interest income from one award's Federal cash advances and not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$2,216,315, which it netted by \$119,131 estimated due back, thus amounting to \$2,097,184 interest liability recorded. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter as \$97,944.

**Vocational Education – Basic Grants to States:** During the procedures performed over Cash Management, we noted that an estimated \$15,282 was earned in interest income from various program federal cash advances. The excess interest was not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$15,282, which it netted by \$10,214 estimated due back, thus amounting to \$5,068 to be returned. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$727.

**Safe and Drug-Free Schools and Communities:** During the procedures performed over Cash Management, we noted that an estimated \$16,377 was earned in interest income from various program Federal cash advances. The excess interest was not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$16,377, which it netted by \$14,413 estimated due back, thus amounting to \$1,964 interest liability recorded. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$871.

**Twenty-First Century Community Learning Centers:** During the procedures performed over Cash Management, we noted that an estimated \$9,315 was earned in interest income from various program Federal cash advances. The excess interest was not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$9,315, which it netted by \$155,911 estimated due back, thus amounting to no interest to be returned. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$130.

**State Grants for Innovative Programs:** During the procedures performed over Cash Management, we noted that an estimated \$54,049 was earned in interest income from various program federal cash advances. The excess interest was not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$54,049, which it netted by \$56,482 estimated due back, thus amounting to no interest to be returned. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$1,945.

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**Education Technology State Grants:** During the procedures performed over Cash Management, we noted that an estimated \$68,079 was earned in interest income from one award's Federal cash advances and not remitted to the federal government. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$3,714.

**English Language Acquisition Grants:** During the procedures performed over Cash Management, we noted that an estimated \$622,246 was earned in interest income from one award's Federal cash advances and not remitted to the federal government. We also noted the understatement of the interest liability due to the incorrect rate in the last quarter to be \$11,546.

**Improving Teacher Quality State Grants:** During the procedures performed over Cash Management, we noted that an estimated \$161,014 was earned in interest income from various program Federal cash advances. The excess interest was not remitted to the federal government. For the year ended June 30, 2006, the District calculated the total interest earned as \$274,904, which it netted by \$131,790 estimated due back, thus amounting to \$161,014 interest to be returned. We also noted the understatement of the interest liability due to the incorrect rate applied in the last quarter as \$19,968.

**Questioned Costs:** \$3,617,856 (see summary below)

- **Public Assistance Grants:** \$204,444
- **Title I Grants to Local Educational Agencies:** \$2,314,259
- **Vocational Education – Basic Grants to States:** \$16,009
- **Safe and Drug-Free Schools and Communities:** \$17,248
- **Twenty-First Century Community Learning Centers:** \$9,445
- **State Grants for Innovative Programs:** \$55,994
- **Education Technology State Grants:** \$71,793
- **English Language Acquisition Grants:** \$633,792
- **Improving Teacher Quality State Grants:** \$294,872

### Recommendation

We recommend that the District comply with federal cash management requirements or obtain positive confirmation of a waiver of the requirements from its various federal funding agencies. We further recommend the District review its current policy for the calculation of interest due to the federal government to eliminate the recording of interest due from the federal government and the subsequent netting with amounts earned on Federal advances.

### Views of Responsible Officials and Planned Corrective Actions

The District agrees with the Recommendation and will review its policies and procedures related to interest earned on the grants received from the various federal programs referenced above. The District is presently considering requesting authorization from the Federal government to use portions of these earned interest funds on an academic intervention program or programs consistent with its obligations under the No Child

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Left Behind Act. The District anticipates making a determination on whether to seek authorization from the Federal government or return the interest earned on these grants within the current fiscal year.

The District posts revenue for the fourth fiscal quarter based on estimates because the actual interest is not released by the County Office of Education until after the books are closed. Any difference between the rate used and the actual rate announced by the COE is adjusted in the first quarter of the following fiscal year.

Furthermore, the District believes that the practice of netting the interest expense incurred by the grant against the subsequent interest earnings of the grant funds is appropriate and that the Federal Government does not want the District to decrease its available regular program resources so as to benefit the federal programs.

#### ***Finding F-06-08 – Cash Management – Timing of Payments to Subrecipients***

**Finding Type:** 30000

#### **Programs Affected**

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

#### **Compliance Requirement**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Government – Subpart C – Post-Award Requirements, Section 80.21, Payment:*

- Basic standard: Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

#### **Situations Noted**

**Twenty-First Century Community Learning Centers:** During procedures performed over Cash Management, we noted the District receives its funding from the State through a combination of advance and reimbursement methods and requires its subrecipients to be paid on the reimbursement basis. In 7 of the 25 reimbursement payment requests sampled, the subrecipients were not paid within 45 days. The length of time between the invoice date and the date of payment for the exceptions ranged from 46 to 105 days.

**Questioned Costs:** Not applicable

#### **Recommendation**

We recommend that District strengthen its processes to ensure that payments to its subrecipients are made in a timely manner.

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#### Views of Responsible Officials and Planned Corrective Actions

The District agrees that subrecipients need to be paid in a timely manner. Although the District has worked to minimize the time required for payments to subrecipients, additional staff, training, and computer resources have been added to reduce these times in the future.

#### *Finding F-06-09 – Equipment – Equipment Management Policies*

**Finding Type:** 20000 and 50000

#### Programs Affected

**Child Nutrition Cluster Programs:** *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

**Child and Adult Care Food Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.558), Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173); Passed Through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No.s V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

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**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

**State Grants for Innovative Programs:** *Department of Education (DOE), Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)*

**Education Technology State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)*

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE), Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217*

**Reading First State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328*

**English Language Acquisition Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346*

**Improving Teacher Quality State Grants:** *Department of Education (DOE), Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341*

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

### Compliance Requirement

Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments - Subpart C – Post-Award Requirements, Section 80.32, Equipment, Part (d) Management Requirements:*

Management Requirement – Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

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- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Disposition – When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

#### **Situation Noted**

The District's policy over the Control of Site Equipment, issued May 10, 2005 (BUL-953), requires individual schools to perform an annual inventory and maintain a permanent inventory of equipment with an original acquisition value over \$500. These voluminous hard copy equipment inventories from over 1,000 District schools and centers are required to be sent to the District office of the controller, which is responsible for receiving and reconciling the equipment records. There is currently no process to reconcile these inventories to District property records, and there is no central equipment records database to reconcile the site-level inventories. The District does maintain an Excel workbook for financial statement purposes, which meets the District's criteria for equipment capitalization in the general ledger for amounts over \$25,000. However, equipment between \$5,000 and \$24,999 does not appear to be adequately tracked, reconciled, and maintained in accordance with Federal compliance guidelines.

Due to the current structure and decentralization of the District's current equipment inventory system, it was unable to provide a listing of equipment disposed of during the fiscal year that was acquired under Federal grant program. Therefore, we were unable to determine if any equipment disposals were subject to federal disposition compliance requirements.

**Questioned Costs:** Not applicable



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#### **Recommendation**

We recommend that the District consider implementing a more automated system of accounting for equipment inventory with a software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. These detailed equipment records should be used both by the District to reconcile its equipment recorded in the general ledger for financial reporting purposes and at the schools to support the accuracy and completeness of the school classroom inventory equipment inventory counts.

We also recommend the District strengthen its internal control policies and procedures to prevent loss or misappropriation of assets by developing some sort of sampling of the existence of its equipment:

- selecting a sample of equipment acquired during the year and tracing it to the physical equipment at the school site, and
- selecting a sample of equipment acquired in a previous year but still maintained in the permanent inventory records and tracing it to the physical equipment at the school site.

We further recommend the District review the current equipment inventory and disposal policies and procedures and consider implementing a more automated system of accounting for equipment inventory software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. It should also have the ability to generate reports to detail annual equipment acquisitions and dispositions by federal program and by school site location.

The District should also issue an update to its control of site equipment policy to include additional language regarding equipment dispositions with an estimated fair market value of \$5,000 or more and create a notification/approval form to be sent from the schools to specially funded programs group at the District office for review and discussion with grant program personnel for possible communication with the program awarding agency for proceeds received or authorization to transfer equipment to a nonfederally funded program, as applicable.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District is currently implementing a new ERP system, SAP. SAP is being designed to track all equipment on federal contracts over \$5,000. The asset tracking portion of SAP is set to go live July 1, 2007. The District will update its procedures to include disposition of assets from federally funded programs.

#### ***Finding F-06-10 – Eligibility – Annual Eligibility Determination***

**Finding Type:** 30000 and 50000

#### **Federal Program**

**Child and Adult Care Food Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.558), Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

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#### Compliance Requirement

*Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 226 – Child and Adult Care Food Program – Subpart E – Operational Provisions, Section 226.23, Free and reduced-price meals:*

- (f) Free, reduced-price, and paid meal eligibility figures must be reported by institutions to state agencies at least once each year and shall be based on current family size and income information of enrolled participants. Such information shall be no more than 12 months old.

#### Situation Noted

During procedures performed over the annual eligibility survey for free and reduced-price meals, we traced the annual eligibility summary data (October participant survey) to source documentation (eligibility participation summary report) and noted 1 of the 30 schools sampled contained errors, which resulted in the over counting of reduced price participants by 11. The results from the annual survey are the basis for how the participant will be claimed for the entire year, therefore any errors will be repeated throughout the entire program year.

**Questioned Costs:** Not applicable

#### Recommendation:

We recommend that the District strengthen controls over the annual eligibility determination process to ensure that student participation categories are being accurately counted and reported to the CDE.

#### Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District has revised the meal application process for the 2006-07 school year. New Free and Reduced Meal Application Eligibility software was implemented at the Central Office to support the meal application process. This software automatically determines eligibility by scanning the application. The system validates the data entered on the meal applications and populates the student information system with meal codes.

The school cafeteria managers will work with the Central Office to resolve any discrepancies between the applications and the system generated meal codes. The system will also generate reports which will reduce the errors in eligibility determinations.

***Finding F-06-11 – Eligibility – Certification of Eligible Targeted Assistance School Students***

**Finding Type:** 30000 and 50000

#### Programs Affected

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

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#### Compliance Requirement

*Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter I – Improving the Academic Achievement of the Disadvantaged, Part A – Improving Basic Programs Operated by Local Educational Agencies, subpart 1 – basic program requirements, Section .6315, Targeted assistance schools, (b) Eligible children:*

- (1) Eligible population:
  - (A) In general – The eligible population for services under this section is:
    - (i) children not older than age 21 who are entitled to a free public education through grade 12; and
    - (ii) children who are not yet at a grade level at which the local educational agency provides a free public education.
  - (B) Eligible children from eligible population – From the population described in subparagraph (A), eligible children are children identified by the school as failing, or most at risk of failing, to meet the State’s challenging student academic achievement standards on the basis of multiple, educationally related, objective criteria established by the local educational agency and supplemented by the school, except that children from preschool through grade 2 shall be selected solely on the basis of such criteria as teacher judgment, interviews with parents, and developmentally appropriate measures.
- (2) Children included:
  - (A) In general – Children who are economically disadvantaged, children with disabilities, migrant children, or limited English proficient children are eligible for services under this part on the same basis as other children selected to receive services under this part.
  - (B) Head Start, Even Start, or Early Reading First children – A child who, at any time in the 2 years preceding the year for which the determination is made, participated in a Head Start, Even Start, or Early Reading First program, or in preschool services under this subchapter, is eligible for services under this part.
  - (C) Part C children – A child who, at any time in the 2 years preceding the year for which the determination is made, received services under part C of this subchapter is eligible for services under this part.
  - (D) Neglected or delinquent children – A child in a local institution for neglected or delinquent children and youth or attending a community day program for such children is eligible for services under this part.
  - (E) Homeless children – A child who is homeless and attending any school served by the local educational agency is eligible for services under this part.

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### Situation Noted

**Title I Grants to Local Educational Agencies:** During the procedures performed over the eligibility of students in a Title I targeted assistance program, we noted in 2 of the 25 classes selected the teacher did not certify the eligible student identification form for accuracy. One of the teachers neglected to sign the form and the other teacher indicated that she was unable to certify 8 of 28 students on the form and questioned whether the remaining other 20 were appropriate. We were unable to verify if the District made adjustments for these uncertified students.

In 50 of the 50 students sampled, which were identified as “failing” or “most at risk of failing,” the District was unable to provide documentation to support the test scores that made them eligible for such categorization.

**Questioned Costs:** Not determined

### Recommendation

We recommend that the District enhance its current policies and procedures to include training for teachers on the certification process and enhance controls in place to help ensure all students are appropriately certified or adjusted from the program.

### Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. We will review District procedures to ensure compliance with the grant program.

### *Finding F-06-12 – Eligibility – Certification of Eligible Children*

**Finding Type:** 30000 and 50000

### Programs Affected

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

### Compliance Requirement

*Title 45-Public Welfare, Subtitle A-Department of Health and Human Services, Part 98\_Child Care and Development Fund – Subpart C - Eligibility for Services, Sec. 98.20 A child’s eligibility for child care services.*

- (a) In order to be eligible for services under Sec. 98.50, a child shall:
  - (1) (i) Be under 13 years of age; or,
  - (ii) At the option of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision;

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- (2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size; and
- (3)
  - (i) Reside with a parent or parents (as defined in Sec. 98.2) who are working or attending a job training or educational program; or
  - (ii) Receive, or need to receive, protective services and reside with a parent or parents (as defined in Sec. 98.2) other than the parent(s) described in paragraph (a)(3)(i) of this section.
    - (A) At grantee option, the requirements in paragraph (a)(2) of this section and in Sec. 98.42 may be waived for families eligible for child care pursuant to this paragraph, if determined to be necessary on a case-by-case basis by, or in consultation with, an appropriate protective services worker.
    - (B) At grantee option, the provisions in (A) apply to children in foster care when defined in the Plan, pursuant to Sec. 98.16(f)(7).
- (b) Pursuant to Sec. 98.16(g)(5), a grantee or other administering agency may establish eligibility conditions or priority rules in addition to those specified in this section and Sec. 98.44 so long as they do not:
  - (1) Discriminate against children on the basis of race, national origin, ethnic background, sex, religious affiliation, or disability;
  - (2) Limit parental rights provided under Subpart D; or
  - (3) Violate the provisions of this section, Sec. 98.44, or the Plan. In particular, such conditions or priority rules may not be based on a parent's preference for a category of care or type of provider. In addition, such additional conditions or rules may not be based on a parent's choice of a child care certificate.

#### Situation Noted

**Child Care Cluster:** During procedures performed over the eligibility of students in the program, we noted 2 of the 30 applications did not contain the signature of an authorized District representative indicating that the entire application has been reviewed and approved. We also noted 1 participant's application that was not signed/certified by the parent/caretaker. We further noted during the procedures over the Notice of Action's, which is used as notification for the denial, change, or termination of services, that 3 of the 30 notices were not signed by the District agency representative.

During the procedures to reperform the eligibility of the student participants, we noted the following exceptions:

- The District was unable to provide supporting documentation to support the eligibility for special needs for 2 of the 25 students sampled.

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- 1 of the 25 students was not being charged on the correct family fee schedule. The Student was being charged as part-time, but should have been charged as full-time.

**Questioned Costs:** Not applicable

**Recommendation**

We recommend that the District enhance its current policies and procedures to include training for teachers on the certification process and enhance controls in place to help ensure all students are appropriately certified or adjusted from the program.

**Views of Responsible Officials and Planned Corrective Actions**

The District agrees with this finding. The District will review procedures to ensure that proper documentation is retained and to prevent incorrect charges.

***Finding F-06-13 – Matching, Level of Effort, Earmarking & Reporting – Matching Funds Reported***

**Finding Type:** 30000 and 50000

**Federal Program:**

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450.

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No. V215L032230

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Project Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

**Compliance Requirement**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.24, Matching or cost sharing:*

- Records: Costs and third-party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third-party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

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### Situation Noted:

**State Administrative Matching Grants for Food Stamp Program:** The District reported a non-Federal funds in-kind match/cost share of \$8,032,438 on its in-kind documentation report to the DHS for the period from April 1, 2005 to June 30, 2005. However, the District was unable to provide documentation to support that amount of in-kind non-Federal funds used for the program.

**Fund for the Improvement of Education:** The District reported a non-Federal funds match/cost share of \$862,581 on its grant performance report along with \$800,000 for the previous budget period, which was reported as a finding in the previous year, for the reporting period from September 1, 2003 through December 2, 2005, however, the District was unable to provide documentation to support that amount of non-Federal funds used for the program.

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** The District reported matching funds of \$1,855,788, \$623,960, and \$589,892 in its three annual performance reports as of March 31, 2006. The District maintained Excel worksheets of its budget estimates of matching funds for the three awards. These budgeted matching expenditures could not be traced to general ledger accounts to verify that (a) the matching funds budgeted were actually expended; or (b) they were used as direct or other matching support for other federally funded programs. We also noted some positions of literacy and mathematics coaches, which are usually funded 100% from other federally funded programs (i.e., Title I, Reading First, etc.).

**Questioned Costs:** Not applicable

**Recommendation:** We recommend the District develop procedures to capture District matching cost share expenditures and to report those actual matched amounts on the grant performance reports to the awarding agency. The supporting documentation for these matching contributions should be retained for audit purposes.

### Views of Responsible Officials and Planned Corrective Actions

The District agrees with portions of this finding. The District will review its procedures and ensure that all required documentation is retained and retrievable in a timely manner. The District also agrees that certain inappropriate expenditures were included in the match calculations. However, the District match was still met with these expenditures excluded. The District will review its procedures to ensure only appropriate expenditures are included in the future.

*Finding F-06-14 – Matching, Level of Effort & Earmarking – Administrative Cost*

**Finding Type:** 50000

### Programs Affected

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

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**English Language Acquisition Grants:** U.S. Department of Education (DOE), Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

#### Compliance Requirement

*Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter IV – 21st Century Schools, Part A – Safe and Drug – Free Schools and Communities, subpart 1 – state grants, Section 7114, Local educational agency program:*

- (a)(2) Administrative costs – Of the amount received under paragraph (1), a local educational agency may use not more than 2% for the administrative costs of carrying out its responsibilities under this subpart.

*Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter II – Language Instruction for Limited English Proficient and Immigrant Students, Part A – English Language Acquisition, Language Enhancement, and Academic Achievement Act, subpart 1– grants and subgrants for english language acquisition and language enhancement, Section 6825, Subgrants to eligible entities*

- (b) Administrative expenses – Each eligible entity receiving funds under Section 6824(a) of this title for a fiscal year may use not more than 2% of such funds for the cost of administering this subpart.

#### Situation Noted

**Safe and Drug-Free Schools and Communities:** During procedures performed over program earmarking requirements, we noted that the District had claimed administrative costs in excess of the 2% limit for the year. The District policy for claiming administrative costs included both the program administrative costs plus the indirect cost rate of 4.51%. The total direct program expenditures for the fiscal year ended June 30, 2006 were \$3,340,843 of which 2% would amount to \$66,816, however, the District had claimed \$205,311 of administrative expenditures to the program.

**English Language Acquisition Grants:** During procedures performed over program earmarking requirements, we noted that the District had claimed administrative costs in excess of the 2% for the year. The District policy for claiming administrative costs included both the program administrative costs plus the indirect cost rate of 4.51%. The total direct program expenditures for the fiscal year ended June 30, 2006 were \$21,313,097 of which 2% would amount to \$426,262, however the District had claimed \$1,847,373 of centralized services administrative expenditures plus \$1,044,487 of indirect costs to the program.

**Questioned Costs:** \$2,604,093 (see summary below)

- Safe and Drug-Free Schools and Communities: \$138,495
- English Language Acquisition Grants: \$2,465,598



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### **Recommendation**

We recommend that the District strengthen its process so that administrative costs are not charged in excess of the 2% limit.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District disagrees with this finding. The California Department of Education has provided guidance that indicates that the district may charge indirect costs plus 2% administrative costs. We are in full compliance with this guidance.

#### ***Finding F-06-15 – Matching, Level of Effort & Earmarking – Administrative Cost***

Finding Type: 30000

#### **Programs Affected**

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

#### **Compliance Requirement**

State of California – Request for Application (RFA) for Programs Proposing to Serve Elementary and Junior High/Middle School Students, No Child Left Behind Act (P.L. 107-110), Page 17, “An organization participating in the 21st Century Community Learning Center program receiving funding for an after school or before and after school program may expend no more than 15% of annual core funding on administrative costs. Indirect costs are included in administrative costs.”

#### **Situation Noted**

During the procedures performed over the program earmarking requirements, we noted that the District had not included all administrative costs in the calculation of the District’s 15% earmarking limit. The District expends program funds for a not-for-profit organization, LA’s Best, to perform some programmatic services in addition to consulting services to assist with the implementation and administration of the program. The calculation of the administrative cost earmarking limit should include the administrative consulting costs paid to LA’s Best. We also noted during the allowable cost procedure samples and inquires with program personnel that other administrative expenditures (i.e., program director, District office computer supplies, etc.) were also not included in the administrative earmarking calculation.

**Questioned Costs:** Not determined

#### **Recommendation**

We recommend that the District strengthen its process and controls over the calculation of the administrative costs charged to ensure that administrative costs are not charged over the allowable maximum.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Views of Responsible Officials and Planned Corrective Actions**

The District does not agree with this finding. L.A.'s BEST is strictly limited to 9.8% of the total grant for administrative costs. The remainder goes to Beyond the Bell and toward District administrative expenditures.

The District does acknowledge certain administrative expenditures were not included in the administrative earmarking calculations and this will be corrected in the future.

***Finding F-06-16 – Matching, Level of Effort & Earmarking – Highly Qualified Professional Development Earmark***

**Finding Type:** 30000

**Programs Affected**

**Education Technology State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)*

**Compliance Requirement**

*Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools Subchapter II – Preparing, Training, and Recruiting High Quality Teachers and Principals, Part D – Enhancing Education Through Technology, subpart 1 – state and local technology grants, Section 6766, Local activities, (a) Professional development*

A recipient of funds made available under Section 6762(a)(2) of this title shall use not less than 25% of such funds to provide ongoing, sustained, and intensive, high-quality professional development. The recipient shall provide professional development in the integration of advanced technologies, including emerging technologies, into curricula and instruction and in using those technologies to create new learning environments, such as professional development in the use of technology:

- (A) to access data and resources to develop curricula and instructional materials;
- (B) to enable teachers:
  - (i) to use the Internet and other technology to communicate with parents, other teachers, principals, and administrators; and
  - (ii) to retrieve Internet-based learning resources; and
- (C) to lead to improvements in classroom instruction in the core academic subjects, that effectively prepare students to meet challenging State academic content standards, including increasing student technology literacy, and student academic achievement standards.

**Situation Noted**

**Education Technology State Grants:** During procedures performed over program earmarking requirements for two grants, we noted that the District's calculations of 26% and 32% appeared to exceed

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

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the minimum 25% requirement. However, the District was unable to provide supporting documentation so that we could determine that the calculation was prepared completely and accurately.

**Questioned Costs:** Not applicable

#### **Recommendation**

We recommend its the District enhance its current policies and procedures to include documented controls in place and specific object codes to capture earmarked expenditures to help ensure compliance with earmarking requirements. We further recommend the District maintain documentation to support earmarking expenditures for a period of not less than three years as required by the award and reporting documentation.

#### ***Views of Responsible Officials and Planned Corrective Actions***

The District accepts this finding. The district is currently implementing a new ERP system which will make tracking earmarking requirements easier and more effective. The final module implementation will go-live on July 1, 2007.

#### ***Finding F-06-17 – Period of Availability – Program Code Controls***

**Finding Type:** 30000

#### **Federal Program:**

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed Through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Gear-up, Award No. P334A000061

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Improving Teacher Quality State Grants:** *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

#### Compliance Requirement

*Title 34 – Education, Part 80-Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C-Post-Award Requirements, Section 80.23, Period of availability of funds:*

- General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- Liquidation of obligations: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

#### Situation Noted:

We noted that several District federal programs reuse the same general ledger program identifier (i.e., program code) for all award years. By not using separate program codes each year there is no clear cut off of expenditures being charged in specific award year or budget period, which increases the risk that the District could charge expenditures to the incorrect period or could claim the expenditures against two different awards in overlapping periods. It also makes the District monitoring of the 90-day liquidation period after the end of an award year more difficult when the specific obligations are not easily identifiable to award years.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the District adopt its policy of using different program codes for each of its federally funded programs.

#### Views of Responsible Officials and Planned Corrective Actions

The District is currently implementing a new ERP system. The Grants module will be implemented July 1, 2007. This system will improve the District's ability to track grants. Procedures are currently being developed to maximize the benefits realized with the new system. In addition, the State Standardized Account Code Structure will assist with this objective.

**Finding F-06-18 – Period of Availability – Expenses Not Claimed in Proper Period**

**Finding Type:** 30000 and 50000

#### Federal Program:

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed Through the California Department of

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**Education Technology State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)

#### **Compliance Requirement:**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.23*  
Period of availability of funds:

- General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

#### **Situation Noted:**

**Special Education Cluster:** In the sample of 50 expenditures, we noted 20 of the 50 sample items totaling \$553,040 were reported as encumbered for the fiscal year 2004-2005 and also claimed as expenditures for the fiscal year 2005-2006.

**Education Technology State Grants:** In the sample of 25 expenditures, we noted 1 expenditure for \$2,533 for goods received on September 12, 2006, which was not incurred or encumbered during the grant period from April 6, 2005 through August 31, 2006. We also noted a separate expenditure for \$5,649 from a different sample of 25 that was for an unpaid balance due on an expenditure of \$58,867 that was incurred and encumbered during the prior-year grant award.

**Questioned Costs:** \$561,222 (see summary below)

- **Special Education Cluster:** \$553,040 of \$1,689,349 sampled
- **Education Technology State Grants:** \$8,182 of \$1,980,444 sampled

**Recommendation:** We recommend that the District strengthen its controls to ensure that all incurred expenses are obligated and charged in the proper period of availability.

#### **Views of Responsible Officials and Planned Corrective Actions**

This audit finding pertains to reports submitted to the CDE and not to amounts in District books.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### *Special Education Cluster:*

The final expenditure report for FY 2004-05 Award (from July 2004 to September 2005) submitted to the CDE showed a total of \$10,932,755 expenditures, which included \$2,642,528.59 of encumbrances. The inclusion of the encumbrances is allowed by the grant condition which states that funds for a specific fiscal year must be expended or legally obligated by the grant end date. However, the Mid-Year Report of the FY 2005-06 Award (from July 2005 to September 2006), reported expenditures of \$5,487,819 which included payments of encumbrances that had been previously included in the FY 2004-05 Award final expenditure report. This error in the Mid-Year Report of the FY 2005-06 Award will be corrected in the final expenditure report for FY 05-06 which will be submitted sometime on December 2006. In addition, the analyst work papers will be redesigned to prevent any similar errors from recurring.

#### *Education Technology Grants:*

The original purchase order was created in October 11, 2004 with total amount of \$58,867. This purchase order was cancelled after a receiving copy indicated that the items ordered had been received and payment of \$53,218 had been made by Accounts Payable. The unfilled item under this PO totaling \$5,649 was later delivered by the vendor on October 28, 2005. Since the original purchase order was cancelled and the original funding line had already expired, a new purchase order with a new funding line was created in order to pay the remaining balance of \$5,649. For the \$2,533 sample noted, the RX 0044-548558 was issued on September 1, 2006 and the purchase order was not issued until September 12, 2006. As such, the District acknowledges that the expenditure should have been reported under the new grant award.

#### ***Finding F-06-19 – Period of Availability – Liquidation of Obligations***

**Finding Type:** 30000 and 50000

#### **Federal Program:**

**Special Education Cluster:** *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed Through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

**Reading First State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

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## Schedule of Findings and Questioned Costs

Year ended June 30, 2006

### Compliance Requirement:

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.23, Period of availability of funds:*

- General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

### Situation Noted:

**Special Education Cluster:** In the sample of 30 expenditures, we noted 7 expenditures that were encumbered for the fiscal year 2005 grant which ended September 30, 2005 totaling \$315,740 but were liquidated after December 31, 2005. Of these 7 expenditures – 5 were included in Finding F-06-18, and were thus not included in this questioned costs calculation.

**Vocational Education – Basic Grants to States:** In the sample of 50 expenditures, we noted 11 expenditures that were encumbered for the fiscal year 2005 grant, which ended June 30, 2005 totaling \$47,876 but were paid after September 30, 2005.

**Twenty-First Century Community Learning Centers:** In the sample of 30 expenditures, we noted 8 that were encumbered before the end of the grant award of August 31, 2005, however, were not paid within 90 days after the end of the award of November 30, 2005 and were paid between January and February 2006.

**Reading First State Grants:** In the sample of 25 expenditures, we noted 5 expenditures that were encumbered for the fiscal year 2005 grant, which ended September 30, 2005 totaling \$10,315 but were paid after December 31, 2005.

**Questioned Costs:** \$175,660 (see summary below)

- **Special Education Cluster:** \$77,920 of \$674,253 sampled
- **Vocational Education – Basic Grants to States:** \$47,876 of \$248,207 sampled
- **Twenty-First Century Community Learning Centers:** \$39,549 of \$172,459 sampled
- **Reading First State Grants:** \$10,315 of \$538,441 sampled

**Recommendation:** We recommend that the District strengthen its controls to ensure that all incurred expenses are paid within the required timeframes.

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs

Year ended June 30, 2006

### Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with this finding. The District is currently implementing a new ERP system. The accounts payable module will go live January, 2007 and the Grants module will go live July, 2007. The new ERP system will enhance the District's ability to monitor grant expenditures to ensure that grant obligations are liquidated in a timely manner.

For the Twenty First Century Grant, the District disagrees with this finding. The State has provided guidance indicating that outstanding obligations must be cleared one year after the end of the grant for this program. We are in compliance with this requirement.

### ***Finding F-06-20 – Procurement, Suspension and Debarment – Suspension or Debarment Certifications for Contracts between \$25,000 to \$100,000***

**Finding Type:** 50000

#### **Federal Program:**

**Child and Adult Care Food Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.558), Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

**Child Nutrition Cluster Programs:** *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Special Milk Program for Children (CFDA 10.556), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

**Public Assistance Grants:** *Department of Homeland Security (DHS)*, (CFDA 83.544), Passed Through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

No. V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

**State Grants for Innovative Programs:** *Department of Education (DOE), Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)*

**Education Technology State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)*

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE), Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217*

**Reading First State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328*

**English Language Acquisition Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346*

**Improving Teacher Quality State Grants:** *Department of Education (DOE), Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341*

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

#### **Compliance Requirement:**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.35 Subawards to debarred and suspended parties:*

- Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### **Situation Noted:**

During procedures performed over suspension and debarment, we noted the standard contract template for the certification of potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion indicates it must be completed by subcontractors/suppliers with a contract value over \$100,000 instead of \$25,000 as required by the Federal regulations. We also noted that the investigation of the Excluded Parties List System (EPLS) website was not performed for the subcontractor/supplier unless the contract value was over \$100,000.

#### **Questioned Costs:** None

**Recommendation:** We recommend that the District update its policies, procedures and current templates for all contract types to reflect the change in the Federal regulations that were effective November 2003.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with this finding. All contracts with a dollar value of \$25,000 and over has been updated with the revised debarment language to include subcontractor compliance. This was completed December 1, 2006.

The Contract File Checklist will be revised to incorporate EPLS debarment check for all contracts valued at \$25,000 and over for prime and subcontractors. This will be completed by January 15, 2007.

#### ***Finding F-06-21 – Procurement, Suspension and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding***

**Finding Type:** 30000 and 50000

#### **Programs Affected**

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA)*, (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450.

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

No. V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

**State Grants for Innovative Programs:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

**Education Technology State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

**Reading First State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

**Improving Teacher Quality State Grants:** *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

### Compliance Requirement

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.36 Procurement:*

- Procurement standards:
  - i. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
  - ii. Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

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- Methods of procurement to be followed:
  - i. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.
    - a. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:
      - (A) The item is available only from a single source;
      - (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
      - (C) The awarding agency authorizes noncompetitive proposals; or
      - (D) After solicitation of a number of sources, competition is determined inadequate.
  - ii. Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

#### **Situation Noted:**

**State Administrative Matching Grants for Food Stamp Program:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 2 samples.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 12 samples in the procurement file.
- Of the expenditures over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with policy for 3 of 9 contracts sampled.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 2 of the 2 sampled items was not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

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**Title I Grants to Local Educational Agencies:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 1 of the 4 samples
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 7 samples in the procurement file.
- Of the expenditures over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance of policy for 7 of 11 contracts sampled.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted the 1 item sampled was not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**Vocational Education – Basic Grants to States:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quote or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 12 of the 16 samples.
- Of the expenditures \$5,000 to \$62,400 which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 9 samples in the procurement file.

**Safe and Drug-Free Schools:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two, telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 6 of the 10 samples.
- Of the expenditures \$5,000 to \$62,400 which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 6 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 9 of the 9 sampled items were not from that state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

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**Fund for the Improvement of Education:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 7 of the 17 samples.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 8 samples in the procurement file.

**Twenty-First Century Community Learning Centers:** In the sample of 25 expenditures, we noted the following exceptions:

- In 24 nonbook purchase order procurement samples, we were unable to obtain supporting documentation for 2 procurement transactions and 1 contract file did not contain support for a cost and price analysis.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted the 1 item sampled was not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**State Grants for Innovative Programs:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 4 samples selected.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 6 samples in the procurement file.
- Of the expenditures over \$100,000, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of 7 contracts sampled. Of those 4 contracts with exceptions, 3 were missing signatures certifying the waiver, 2 were missing signatures for the request for contract authorization, and 1 was missing evidence of competitive bidding.

**Education Technology State Grants:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 7 samples.

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- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of the 12 samples in the procurement file.
- Of the expenditures over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 1 of 5 contracts sampled.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted the 1 item sampled was not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quote or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of the 10 samples.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 11 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 4 of the 4 sampled items were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**Reading First State Grants:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 15 of the 16 samples.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 7 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 2 of the 2 sampled items were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**English Language Acquisition Grants:** In the sample of 25 expenditures, we noted the following exceptions:

- 11 of the 25 samples were missing supporting documentation for the approval of the procurement or P-card transaction.

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- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a non-competitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 3 samples.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 3 of the 3 sampled items were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

**Improving Teacher Quality State Grants:** In the sample of 25 expenditures, we noted the following exceptions:

- Of the expenditures less than \$5,000 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 9 items sampled.
- Of the expenditures \$5,000 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence with compliance of the policy for 1 of the 9 items sampled in the procurement file.

**Questioned Costs:** Not determined

**Recommendation:** We recommend the District strengthen its controls over its procurement approval process to ensure that required District policies are being followed with proper documentation maintained in the procurement files.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with this finding. The District will review the procedures regarding the requirement to obtain three quotes on contracts valued between \$5,000 and \$65,000. The Contract File Checklist will be revised to include the Request for Proposal (RFP) waiver criteria number. The checklist will also be revised to include District requirements for obtaining quotes. These actions will be completed by January 30, 2007.

#### ***Finding F-06-22 – Procurement, Suspension and Debarment –Required Contract Provisions***

**Finding Type:** 50000

#### **Program Affected**

**Public Assistance Grants:** *Department of Homeland Security (DHS), (CFDA 83.544), Passed Through the California Governor’s Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146 and OES 93708.4*

#### **Compliance Requirement**

*Title 44 – Emergency Management and Assistance, Chapter I – Federal Emergency Management Agency, Department of Homeland Security, Part 13\_Uniform Administrative Requirements for Grants and*



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*Cooperative Agreements to State and Local Government – Subpart C – Post-Award Requirements, Section 13.36 Procurement, (i) Contract provisions:*

A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy.

- (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (Contracts more than the simplified acquisition threshold)
- (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000)
- (3) Compliance with Executive Order 11246 of September 24, 1965, entitled "Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR Chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)
- (4) Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3). (All contracts and subgrants for construction or repair)
- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR Part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)
- (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR Part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2000, and in excess of \$2500 for other contracts which involve the employment of mechanics or laborers)
- (7) Notice of awarding agency requirements and regulations pertaining to reporting.
- (8) Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.
- (9) Awarding agency requirements and regulations pertaining to copyrights and rights in data.
- (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

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- (12) Compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act (42 U.S.C. 1857(h)), Section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000)
- (13) Mandatory standards and policies relating to energy efficiency, which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94-163, 89 Stat. 871).

#### **Situation Noted:**

**Public Assistance Grants:** During the procedures performed over subcontracts with various construction contractors, we reviewed the District template for Certification Requirements (Form 430-1), revised 10/17/2003, and noted the following items were not included in the certifications the District was obtaining:

- Compliance with the Copeland “Anti-Kickback” Act.
- Compliance with the Contract Work Hours and Safety Standards Act.
- Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor, which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
- Compliance with all applicable standards, orders, or requirements issued under Clean Air Act, Clean Water Act, Executive Order 11738, and Environmental Protection Agency regulations.
- Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the District review the language in its subcontractor certifications to ensure that they are in full compliance with Federal regulations.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor’s recommendations. The required items will be incorporated into future contracts administered by the FEMA Project Management Unit, and the requirements described will be required of the appropriate parties to the contract.

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***Finding F-06-23 – Program Income – Controls over Cash Receipts Collected at School Sites***

**Finding Type:** 30000

**Programs Affected**

**Child Nutrition Cluster Programs:** *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed Through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

**Compliance Requirement**

*Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 210 – National School Lunch Program – Subpart B – Reimbursement Process for States and School Food Authorities, Section 210.8, Claims for reimbursement. (a) Internal controls:*

The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced price, and paid lunch counts against data, which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

*Title 7 – Agriculture, Chapter II-Food And Nutrition Service, Department of Agriculture, Part 210 – National School Lunch Program – Subpart E – State Agency and School Food Authority Responsibilities, Section 210.23, Other responsibilities. (c) Retention of records:*

State agencies and school food authorities may retain necessary records in their original form or on microfilm. State agency records shall be retained for a period of 3 years after the date of submission of the final Financial Status Report for the fiscal year. School food authority records shall be retained for a period of 3 years after submission of the final Claim for Reimbursement for the fiscal year. In either case, if audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit.

**Situation Noted:**

In the review of controls over the reporting of cash collected at the school sites, we noted that cash collected for meals served is reconciled at the school level and reported to the District on the weekly report. As part of the reconciliation process at the school level, they reconcile the cash in the register to the register sales tape, but this sales tape to support the cash collected is not sent to the District or retained at the school sites for audit purposes.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the District strengthen controls over the cash collection and reporting process at the school sites by requesting that a copy of the total from the register sales tape be

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included in the weekly claim information being sent to the District office. We further recommend that these sales tapes be retained or microfilmed for record retention purposes to comply with federal guidelines.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with this finding. The Food Services Branch has strengthened controls over cash collections by developing worksheets to assist schools to reconcile the cash collection to sales. The weekly reports submitted by Food Services Staff were altered this year to clearly state the differences between sales and collections to aid in proper cash collection.

The automation of the Point of Sale System will significantly strengthen controls over the cash collection and reporting process. It is currently being implemented.

#### ***Finding F-06-24 – Program Income – Calculation of Program Fees***

**Finding Type:** 30000 and 50000

#### **Federal Program:**

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

#### **Compliance Requirement:**

*Title 45 – Public Welfare and Human Services, Part 92 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Subpart C – Post-Award Requirements, Section. 92.25, Program income.*

#### **General:**

Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.

#### **Deduction:**

Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.

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#### **Situation Noted:**

During procedures performed over the calculation of program income, we noted 8 of 25 sample items were calculated incorrectly.

**Questioned Costs:** \$429 of \$1,801 sampled

**Recommendation:** We recommend the District enhance its review process over the calculation of family fees to ensure that amounts are charged in accordance with the state schedule.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with this finding. Additional training will be provided to ensure that the calculations are performed correctly.

#### ***Finding F-06-25 – Reporting – Financial and Performance Reporting***

**Finding Type:** 30000 and 50000

#### **Federal Program:**

**State Administrative Matching Grants for Food Stamp Program:** *U.S. Department of Agriculture (USDA), (CFDA 10.561), Passed Through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450*

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE), Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923*

**Fund for the Improvement of Education:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title V, Part D; (CFDA 84.215), Project Title: Teaching American History, Award No. U215X030096*

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE), Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Project LASSO (Linking Academic Success with Student Outreach), Award No. P334A050217*

#### **Compliance Requirement:**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems. Financial Administration*

- (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
  - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

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- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
  - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

#### **Situation Noted:**

**State Administrative Matching Grants for Food Stamp Program:** During procedures performed over expenditure reporting, we noted an invoice to the Department of Health Services for the period from July 1, 2005 through September 30, 2005 reported expenditures of \$1,027,255. Upon tracing this amount to general ledger supporting documentation we noted the actual expenditures to be \$988,967. The District was unable to support a reconciliation of the difference.

#### **Vocational Education – Basic Grants to States:**

During the procedures over programmatic reporting we traced student population data to the supporting documentation and noted differences between the numbers of students reported:

- In the Adult program CDE 101 E-1 *Report of Career Technical Education Enrollment and Program Completion for School Year 2004-2005*, we noted 3 of the 4 line items sampled did not match the supporting documentation. The discrepancies ranged from 2 to 52 students.
- In the Adult program CDE 101 E-2 *Report of Career Technical Education Enrollment and Program Completion for School Year 2004-2005*, 4 of the 4 line items sampled did not match the supporting documentation. The discrepancies ranged from 1 to 31 students.
- We were unable to obtain documentation to support 4 selections on the CDE-20 *ROC/P and Adult Education Submission of Economically Disadvantaged Adult Enrollment Report to Establish Eligibility for the Section 132 Funds* and 4 selections on the CDE-21 *ROCP and Adult Education Submission of Report on Fall-Term Enrollment in Career and Technical Education Courses* for the Adult program.
- In the Secondary program CDE 101 E-1 *Report of Career Technical Education Enrollment and Program Completion for School Year 2004-2005*, we noted 2 of the 2 line items sampled did not match the supporting documentation. The discrepancies ranged from 1 to 8 students.
- In the Secondary program CDE 101 E-2 *Report of Career Technical Education Enrollment and Program Completion for School Year 2004-2005*, we noted 2 of the 2 line items sampled did not match the supporting documentation. The discrepancies ranged from 6 to 224 students.

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**Fund for the Improvement of Education:** During the procedures performed over reporting, we noted that the required program reporting was both completed and submitted by the program director. The risk of reporting errors increases without an independent review process. We also noted that the Annual Performance Report indicated the reporting period to be from October 1, 2004 to September 30, 2005, with federal expenditures for the reporting period to be \$236,826. Per review of documentation to support the expenditures reported, we noted that the expenditure total included on the report was actually for the period from July 1, 2004 to June 30, 2005 and not the same period indicated on the report submitted. The correct amount of expenditures for the period from October 1, 2004 to September 30, 2005 was \$255,445.

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** During procedures performed over reporting, we noted that there was no evidence of review of the required program reporting for project LASSO by the school principal and program director. The risk of reporting errors increases without an independent review process.

We also noted that the Annual Performance Reports for project higher learning and project GEAR-UP the expenditures reported expenditures of \$1,122,209 and \$783,012, respectively. Upon tracing these amounts to general ledger supporting documentation, we noted that the actual expenditures was \$1,135,949 and \$766,549, respectively. Upon inquiry with the project director, we noted that due to a timing issue, the District had estimated one month of salary and two months of benefit expenses. No amended reports were submitted to the Federal agency upon finalization of the expenditures.

The District was unable to provide any supporting documentation to support the \$574,785 of expenditures reported in the Annual Performance Report for project LASSO.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately.

**Views of Responsible Officials and Planned Corrective Actions:**

The District will revise procedures to ensure an internal review process is conducted to identify errors prior to filing reports. Reports will be reviewed by the preparer's supervisor.

***Finding F-06-26 – Reporting –Attendance Reports***

**Finding Type:** 50000

**Federal Program:**

**Twenty-First Century Community Learning Centers:** U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

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#### **Compliance Requirement:**

*Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems. Financial Administration:*

- (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
  - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
  - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

#### **Situation Noted:**

As part of the audit procedures, we obtained supporting documentation for the reported attendance claims made for the program and compared the numbers of students claimed by the District to the supporting attendance documentation and noted the following exceptions:

- In the sample of quarterly attendance for school sites, we sampled a total of 25 quarters where a total of 124,273 attendance days were claimed. We compared them to subrecipient claims and noted that 1 of the quarters was under claimed by a total of 456 days and 1 quarter was over claimed by 1,504 days.
- In a separate sample of subrecipient claims from school sites, we sampled a total of 50 attendance days where 5,667 students were submitted and noted that support for 43 of the 50 site daily attendance supporting documentation did not match the number submitted to the District. The actual attendance support for those 50 days indicated 6,250 total student attendance instead of the 5,667 days submitted, thus 583 days were under claimed.

**Questioned Costs:** \$7,860 (\$11,280 over – \$3,420 under) of the \$932,048



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**Recommendation:** We recommend the District strengthen its current controls over attendance reporting and claiming to ensure that reports are completed accurately and the District claims all of its entitled attendance days.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District revised the attendance reports to the State in September 2006 for all four quarters of the 2006 fiscal year.

#### ***Finding F-06-27 – Reporting – Attendance Reporting***

**Finding Type:** 50000

#### **Federal Program:**

**Child Care Cluster:** *U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5*

#### **Compliance Requirement:**

*Title 45 – Health And Human Services, Part 92 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Government – Subpart C – Post – Award Requirements, Section 92.20, Standards for financial management systems. Financial Administration:*

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
  - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
  - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
  - (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must

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adequately safeguard all such property and must assure that it is used solely for authorized purposes.

- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

#### **Situation Noted:**

During procedures performed over student attendance reporting, we traced the number of days reported per the District category report, which is source data used to claim attendance, to the daily sign-in/out documentation and noted differences between the numbers of students reported:

- In the sample of 50 students for 975 attendance days, we noted 11 of the students sampled did not match the supporting daily sign-in/out documentation.
  - We noted 5 exceptions where the support didn't match in total: 2 students were underreported for 2 days, 2 students were underreported for 1 day, and 1 student was over reported for 1 day.
  - We noted 4 exceptions where the students' days of attendance matched in total but didn't match the appropriate attendance category: 1 student had 2 days of excused absence reported as present, and 3 students had 1 day of excused absence reported as present.
  - We also noted the District was unable to provide a clear copy of the supporting sign-in/out documentation for 2 students.

We also traced the child days of enrollment reported per the District category report to the CDE reimbursement claim and noted differences between the numbers of students reported:

- In the sample of 30 school months for 17,227 attendance days, we noted 4 of the months from the claims sampled did not match the supporting category report documentation. We noted 3 of the differences were input errors of 1 day under reporting into the EESIS and the other difference of 23 days over reported due to input errors for two students.

We traced the child adjustment factors report generated by the EESIS system and reconciled those to the Notice of Action/Application 9900 and noted differences in 6 of the 50 samples.

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We also traced the enrolled hours per the notice of action/application 9900 to the sign-in/out documentation to test if the enrolled hours matched the actual hours. We also verified if the correct CDE adjustment factor was being applied and noted differences in 36 of the 50 samples.

**Questioned Costs:** Not determined

**Recommendation:** We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately and supporting documentation maintained.

#### **Views of Responsible Officials and Planned Corrective Actions:**

The District agrees with this finding. The District has issued a bulletin to the office managers and administrators regarding the procedures for sign-in/out sheets. The bulletin was presented to the office managers July 26, 2006.

The District has also reviewed other procedures to ensure that discrepancies are promptly resolved and to provide cross training to ensure continuity when there are absences.

#### ***Finding F-06-28 – Subrecipient Monitoring – Monitoring Procedures Performed***

**Finding Type:** 30000 and 50000

#### **Federal Program:**

**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

#### **Compliance Requirement:**

TITLE 34-EDUCATION, PART 80 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C – Post-Award Requirements, Section 80.40 Monitoring and reporting program performance.

(a) Monitoring by grantees:

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

OMB Circular No. A-133, *Revised to show changes published in the Federal Register June 27, 2003*, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D – Federal Agencies and Pass-Through Entities, §\_\_\_\_.400 Responsibilities. (d) Pass-through entity responsibilities:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

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- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

#### **Situation Noted:**

During procedures performed over subrecipients we noted the following:

- The District did not make determinations of which of subrecipients expended a total of \$500,000 or more in total federal awards to assess the completeness of the A-133 audits completed. The District was unable to provide copies of the subrecipient single audit reports, nor had they reviewed a copy online at <http://harvester.census.gov>, or supported that they were not required to obtain an audit for 23 of their 27 subrecipients.
- The District performs site visits on its subrecipients to ascertain if they are operating the program in accordance with requirements, but was unable to provide 15 of the 50 sampled completed site visit observation forms. We noted that in one location the monitor was denied access to the site twice to perform the monitoring visit but the District did not discontinue that site's funding for non-compliance.

**Questioned Costs:** None

**Recommendation:** We recommend the District review its current policies and procedures to strengthen controls over subrecipient monitoring to ensure that all District subrecipients comply with federal audit regulations and that the District is informed of any subrecipient noncompliance issues so that they can make informed management decisions.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District is currently obtaining A-133 audits from applicable subrecipients. The District will review its procedures to ensure the most effective compliance controls are in place.

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The District is currently conducting site observations and the process has been strengthened to ensure that observations are being done every month. The District will check to make sure that each field office is checking each school once a month.

#### ***Finding F-06-29 – Subrecipient Monitoring – Monitoring Procedures Performed***

**Finding Type:** 50000

#### **Federal Program:**

**Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP):** *U.S. Department of Education (DOE), Higher Education Act Title IV, Part A; (CFDA 84.215), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217*

#### **Compliance Requirement:**

*Title 34-Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post-Award Requirements, Section 80.40, Monitoring and reporting program performance, (a) Monitoring by grantees:*

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

OMB Circular No. A-133, *Revised to show changes published in the Federal Register June 27, 2003, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D – Federal Agencies and Pass-Through Entities, §\_\_\_.400 Responsibilities. (d) Pass-through entity responsibilities:*

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

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- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

**Situation Noted:**

During procedures performed over subrecipients we noted the following:

- We noted 16 of the 16 contracts did not contain all the federal award information required to be identified to the subrecipient. Items not identified in the contracts include the CFDA title and number, federal agency name, and requirement to comply with OMB Circular A-133 for subrecipients expending \$500,000 in combined Federal funds.
- The District did not make determinations of which of subrecipients expended a total of \$500,000 or more in total federal awards to assess the completeness of the A-133 audits received. The District was unable to provide copies of the subrecipient single audit reports, nor had they reviewed a copy online was at <http://harvester.census.gov>, or supported that they were not required to obtain an audit for 16 of their 16 subrecipients.

**Questioned Costs:** Not applicable

**Recommendation:**

We recommend the District revise its current contract template to include the required references for Federal pass-through funds and also issue addendums to existing contracts to ensure that the subrecipients are properly notified of the various requirements of participating in federally funded programs. We also recommend that the District implement policies and procedures to identify subrecipients that will be subject to their own A-133 audit and the collection of those audits with follow-up on any findings related to the pass-through program.

**Views of Responsible Officials and Planned Corrective Actions**

The District agrees that the contract did not include all of the federal award information required to be identified to the subrecipient. This has been corrected on new contracts.

This District has requested A-133 audits from the District's subrecipients. One subrecipient has not yet sent their single audit report.

***Finding F-06-30 – Special Tests and Provisions (Participation of Private School Children) –Private School Consultations***

**Finding Type:** 50000

**Federal Program:**

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

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**Twenty-First Century Community Learning Centers:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed Through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349*

**State Grants for Innovative Programs:** *Department of Education (DOE), Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)*

**Education Technology State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)*

**Reading First State Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328*

**English Language Acquisition Grants:** *U.S. Department of Education (DOE), Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346*

**Improving Teacher Quality State Grants:** *Department of Education (DOE), Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341*

#### **Compliance Requirement:**

TITLE 34, EDUCATION, SECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 299 – GENERAL PROVISIONS, Subpart E – Services to Private School Students and Teachers, Section 299.6, What are the responsibilities of a recipient of funds for providing services to children and teachers in private schools?

- (a) An agency or consortium of agencies receiving funds under an applicable program listed in paragraph (b) of this section, after timely and meaningful consultation with appropriate private school officials (in accordance with the statute), shall provide special educational services or other benefits under this subpart on an equitable basis to eligible children who are enrolled in private elementary and secondary schools, and to their teachers and other educational personnel.
- (b) Applicable programs. This subpart is applicable to the following programs:
  - (1) Part C of title I (Migrant Education).
  - (2) Title II (Professional Development) (other than Section 2103 and part C of this title).
  - (3) Title III (Technology for Education) (other than part B of this title) (Star Schools).
  - (4) Part A of title IV (Safe and Drug-Free Schools and Communities) (other than Section 4114).
  - (5) Title VI (Innovative Education Program Strategies).

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(6) Title VII (Bilingual Education).

#### **Situation Noted:**

**Safe and Drug-Free Schools and Communities, State Grants for Innovative Programs, Education Technology State Grants:** The District was unable to provide documentation to support consultations or attempts to notify the private schools regarding the scheduled group meetings to discuss services and funding available for 2 of 25 private schools sampled.

**Reading First State Grants:** The District was unable to provide documentation to support consultations or attempts to notify the private schools regarding the scheduled group meetings to discuss services and funding available for 3 of 25 private schools sampled.

**Twenty-First Century Community Learning Centers, English Language Acquisition Grants and Improving Teacher Quality:** We were unable to identify a control in place to ensure that all eligible private schools were notified of their eligibility to participate in the annual Federal funding consultations. The District was unable to provide documentation to support consultations or attempts to notify the private schools regarding the scheduled group meetings to discuss services and funding available for 3 of 50 private schools sampled.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the District enhance controls to ensure that all private schools are properly notified of their right to participate in federally funded programs.

#### **Views of Responsible Officials and Planned Corrective Actions**

A new consultation model has been implemented by the District to deal with all consultations with the private school. This model incorporates all the steps involved in communicating access to private schools. This model has now been adopted and is currently in use. Documentation of communication is now handled by the NCLB Private Schools Support office. Templates have been developed and used with every categorical program. Our office is using the templates created by the support office. The NCLB Private Schools Support office houses all documentation of the communication to the private schools in regard to access of our programs via an orientation meeting and consultations. The Health Education Programs office also holds a copy of the affirmation of consultation and all training records and expenditure forms.

***Finding F-06-31 – Special Tests and Provisions (Participation of Private School Children) – Participating Private School Expenditures or Equal District vs. Private School Pupil Expenditure Ratios***

**Finding Type:** 30000 and 50000

#### **Federal Program:**

**Safe and Drug-Free Schools and Communities:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

**State Grants for Innovative Programs:** *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)



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**Education Technology State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed Through the California Department of Education (CDE) as Enhancing Education Through Technology (CFDA 84.318)

**Reading First State Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed Through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

#### **Compliance Requirement:**

TITLE 34, EDUCATION, SECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 299 – GENERAL PROVISIONS, Subpart E – Services to Private School Students and Teachers, Section 299.7, What are the factors for determining equitable participation of children and teachers in private schools?

(a) Equal expenditures:

- (1) Expenditures of funds made by an agency or consortium of agencies under a program listed in Sec. 299.6 (b) for services for eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the amount of funds expended for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of those children and their teachers and other educational personnel.
- (2) Before determining equal expenditures under paragraph (a)(1) of this section, an agency or consortium of agencies shall pay for the reasonable and necessary administrative costs of providing services to public and private school children and their teachers and other educational personnel from the agency's or consortium of agencies' total allocation of funds under the applicable ESEA program.

(b) Services on an equitable basis:

- (1) The services that an agency or consortium of agencies provides to eligible private school children and their teachers and other educational personnel must also be equitable in comparison to the services and other benefits provided to public school children and their teachers or other educational personnel participating in a program under this subpart.
- (2) Services are equitable if the agency or consortium of agencies--
  - (i) Addresses and assesses the specific needs and educational progress of eligible private school children and their teachers and other educational personnel on a comparable basis to public school children and their teachers and other educational personnel;

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- (ii) Determines the number of students and their teachers and other educational personnel to be served on an equitable basis;
  - (iii) Meets the equal expenditure requirements under paragraph (a) of this section; and
  - (iv) Provides private school children and their teachers and other educational personnel with an opportunity to participate that--
    - (A) Is equitable to the opportunity and benefits provided to public school children and their teachers and other educational personnel; and
    - (B) Provides reasonable promise of participating private school children meeting challenging academic standards called for by the State's student performance standards and of private school teachers and other educational personnel assisting their students in meeting high standards.
- (3) The agency or consortium of agencies shall make the final decisions with respect to the services to be provided to eligible private school children and their teachers and the other educational personnel.
- (c) If the needs of private school children, their teachers, and other educational personnel are different from the needs of children, teachers, and other educational personnel in the public schools, the agency or consortium of agencies shall provide program benefits for the private school children, teachers, and other educational personnel that are different from the benefits it provides for the public school children and their teachers and other educational personnel.

#### **Situation Noted:**

**Safe and Drug-Free Schools and Communities:** The District was unable to provide documentation to support the amount of expenditures incurred for each of the private schools participating in the Safe and Drug-Free School Program, the per-pupil expenditure ratio for those participating private schools, and the comparable participating District student expenditure ratios for the fiscal year 2005-2006. We noted in the "Affirmation of Consultation" with the private school officials at the beginning of the school year the funding per student was indicated as \$3.99 with the District's funding per student for the same school year estimated at \$5.58. The District asserted that it budgeted an equal per pupil amount for the participating private school funds but we were unable to verify that budgeted amount due to no specific program code was in place to accumulate the budgeted or the actual private school expenditures.

**State Grants for Innovative Programs:** The District was unable to provide documentation to support the amount of expenditures incurred for each of the private schools participating in the Safe and Drug-Free School Program, the per-pupil expenditure ratio for those participating private schools, and the comparable participating District student expenditure ratios for the fiscal year 2004-2005. We noted in the "Affirmation of Consultation" with the private school officials at the beginning of the school year the funding per student was originally indicated as \$7.46 but was crossed out to reflect \$49.36 with the District's funding per student for the same school year estimated at \$32.26. We were unable to ascertain if the adjustment to the per pupil amount was made prior to the authorization of the private school official. The District asserted that it budgeted an equal per pupil amount for the participating private school funds

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but we were unable to verify that budgeted amount due to no specific program code was in place to accumulate the budgeted or the actual private school expenditures.

**Education Technology State Grants:** The District asserted that it budgeted an equal per pupil amount for the participating private school funds but we were unable to verify that budgeted amount due to no specific program code being in place to accumulate the budgeted or the actual private school expenditures.

**Reading First State Grants:** In the sample of 25 participating private schools, we noted 2 middle or high schools with no K-3 students, thus they should not have been eligible to participate in the program. The District asserted that it budgeted an equal per pupil amount for all participating private school funds but we were unable to verify that budgeted amount due to no specific program code being in place to accumulate the budgeted or the actual private school expenditures.

**English Language Acquisition Grants:** In the sample of 25 participating private schools, we noted the District entered into memorandums of understanding with participating schools for the District to provide services which they valued at per pupil amounts ranging from \$80.00 to \$80.81, however the per pupil amount received by the District according to the State apportionment information was \$81.75 per student. The District does not have specific program codes for private school expenditures to support that the actual expenditures were consistent with the estimated expenditures.

**Questioned Costs:** Not determined

**Recommendation:** We recommend that the District develop a process to reasonably estimate the District per pupil ratio at the time of the private schools' award assessment process and to compare the District's final per pupil ratio against the amounts awarded to the participating private schools.

#### **Views of Responsible Officials and Planned Corrective Actions**

The estimated and final allocated per pupil expenditure is being communicated through Budget Services. The categorical programs have all met with Budget Services to discuss any updates to the per pupil expenditure, and have been instructed to notify all private schools of any changes that may happen with regard to allocation. The model adopted by the NCLB Private School Support Office supports any necessary meeting between the categorical programs and Budget Services, and any necessary meetings have been setup to ensure that any changes are clarified and communicated to all participating private schools in Title IV, Part A programs.

This protocol has been in place beginning in the 2007 fiscal year and the office continues to have on-going communication regarding any changes. Emails, agendas, and budget sheets will be kept for documentation purposes. Budget tracking sheets are kept for accounting purposes in the Health Education Programs office.

Information provided by the District shows clearly that the final per pupil amount for both public and private school students is \$5.58. Any communications with private schools at the beginning of the school year are estimates only. The amounts budgeted can be verified by reconciling the private school allocations for each of the programs to the per pupil amount multiplied by the number of private school students.

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#### ***Finding F-06-32 – Special Tests and Provisions (Verification of Free/Reduced Price Applications – Verification Process Controls***

**Finding Type:** 50000

#### **Programs Affected**

**Child Nutrition Cluster Programs:** U.S. Department of Agriculture (USDA), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed Through the California Department of Education (CDE), Agreement #19-64733-0000000-01

#### **Compliance Requirement:**

*Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 245 – Determining Eligibility for Free and Reduced Price Meals and free Milk in Schools-Section 245.6a, Verification requirements. (c) Verification reporting and recordkeeping requirements:*

No later than March 1, 2005 and by March 1st each year thereafter, each school food authority must report information related to its annual verification activity to the State agency in accordance with guidelines provided by FNS. These required data elements will be specified by FNS. Contingent upon new funding to support this purpose, FNS will also require each school food authority to collect and report the number of students who were terminated as a result of verification but who were reinstated as of February 15th. The first report containing this data element would be required in the school year beginning July 1, 2005 and each school year thereafter. State agencies may develop paper or electronic reporting forms to collect this data from school food authorities, as long as all required data elements are collected from each school food authority. School food authorities shall retain copies of the information reported under this section and all supporting documents for a minimum of 3 years. All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or school food authority must be retained. School food authorities are encouraged to collect and report any or all verification data elements before the required dates.

#### **Situation Noted:**

During the review of the results of the sampled applications and adjustments proposed and reported as a result of the verification process, we noted 1 of the 30 student applications sampled contained an incorrect calculation of the parent monthly income. This error was not caught during the review process due to the current procedure being to only review applications that employees initially assessed should be changed into a different eligibility category (e.g., free to reduced, etc.). We noted no specific oversight controls performed over the population of applications that were initially assessed as no change where incorrect computations performed by the initial employee may result in the application that should have been recategorized.

**Questioned Costs:** Not determined

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**Recommendation:** We recommend the District strengthen controls over the verification reporting process to ensure that adjustments made as a result of the verification and accurately compiled and reported.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the finding. The District has recently installed a new meal application scanning system. This system will be able to pre-print information of the household that will be submitted for verification which will eliminate errors of identification. The Food Services Branch has trained its Meal Audit Clerks on the use of the software. Applications verified by the Clerks will be submitted to a Senior Audit Clerk for a second review.

#### ***Finding F-06-33 – Special Tests and Provisions (Highly Qualified Teachers) – Qualifications***

**Finding Type:** 50000

#### **Federal Program:**

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

#### **Compliance Requirement**

*Title 34 – Education, Secondary Education, Department Of Education, Part 200 – Title I – Improving The Academic Achievement of the Disadvantaged – Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 200.55, Qualifications of teachers and Section 200.56, Definition of “highly qualified teacher.”*

- Newly hired teachers in Title I programs – An LEA must ensure that all teachers hired after the first day of the 2002-2003 school year who teach core academic subjects in a program supported with funds under subpart A of this part are highly qualified as defined in Sec. 200.56.
- All teachers of core academic subjects – Not later than the end of the 2005-2006 school year, each State that receives funds under subpart A of this part, and each LEA in that State, must ensure that all public elementary and secondary school teachers in the State who teach core academic subjects, including teachers employed by an LEA to provide services to eligible private school students under Sec. 200.62, are highly qualified as defined in Sec. 200.56.
- Teachers new to the profession. A teacher covered under Sec. 200.55 who is new to the profession also must:
  - (1) Hold at least a bachelor’s degree; and
  - (2) At the public elementary school level, demonstrate, by passing a rigorous State test (which may consist of passing a State certification or licensing test), subject knowledge and teaching skills in reading/language arts, writing, mathematics, and other areas of the basic elementary school curriculum; or
  - (3) At the public middle and high school levels, demonstrate a high level of competency by:

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- (i) Passing a rigorous State test in each academic subject in which the teacher teaches (which may consist of passing a State certification or licensing test in each of these subjects); or
  - (ii) Successfully completing in each academic subject in which the teacher teaches:
    - (A) An undergraduate major;
    - (B) A graduate degree;
    - (C) Coursework equivalent to an undergraduate major; or
    - (D) Advanced certification or credentialing.
- Teachers not new to the profession. A teacher covered under Sec. 200.55 who is not new to the profession also must:
    - (1) Hold at least a bachelor's degree; and
      - (i) Meet the applicable requirements in paragraph (b)(2) or (3) of this section; or
      - (ii) Based on a high, objective, uniform State standard of evaluation in accordance with Section 9101(23)(C)(ii) of the ESEA, demonstrate competency in each academic subject in which the teacher teaches.

#### **Situation Noted:**

In the sample of 15 teachers, we noted 3 did not meet the criteria of highly qualified. The following summarizes the exceptions noted:

- 1 teacher not new to the profession did not meet uniform State standard of evaluation (i.e., High Objective Uniform State Standard of Evaluation (HOUSSE), etc.)
- 2 new teachers to the profession did not pass the State test (i.e., MSAT examination, CCTC examination, etc.)

#### **Questioned Costs:** N/A

**Recommendation:** We recommend that the District ensure that all paraprofessionals meet the appropriate qualifications.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District issued Reference Guide REF-1408, dated February 14, 2005, outlining the policies and procedures to be followed for compliance with NCLB. The District's specific procedures followed by Human Resources Department are:

- All interested teachers must submit an on-line application listing their qualifications.

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- Online applications are reviewed and screened. Only those meeting NCLB requirements are invited to be interviewed by the Human Resources department.
- Candidates are sent to schools for interviews. Those offered a job return to finish the hiring process.
- If there are no more NCLB qualified candidates available, the District must hire non-qualified teachers. to bring these teachers into compliance, the District:
  - Automatically enrolls appropriate individuals into internship programs.
  - Requires non-compliant teachers to sign a pledge to complete necessary requirements.
  - Enrolls non-compliant teachers into needed classes prior to hiring
  - Monitors their progress toward completion of necessary requirements.

The District's Student Information System (SIS) automatically prints out letters to parents of children being taught by teachers who are not NCLB compliant. The SIS system also prints out the certification form that is signed by the Principal and kept on file that declares whether the school is in compliance with NCLB and upon request, print out an individual teacher's qualifications listing their college degree, credentials, etc.

#### ***Finding F-06-34 – Special Tests and Provisions (Highly Qualified Paraprofessionals) – Qualifications***

**Finding Type:** 50000

#### **Federal Program:**

**Title I Grants to Local Educational Agencies:** *Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed Through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

#### **Compliance Requirement**

*Title 34 – Education, Secondary Education, Department of Education Part 200 – Title I – Improving the Academic Achievement of the Disadvantaged – Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 200.58, Qualifications of paraprofessionals:*

- All paraprofessionals. A paraprofessional covered under paragraph (a) of this section, regardless of the paraprofessional's hiring date, must have earned a secondary school diploma or its recognized equivalent.
- New paraprofessionals. A paraprofessional covered under paragraph (a) of this section who is hired after January 8, 2002 must have—
  - (1) Completed at least two years of study at an institution of higher education;
  - (2) Obtained an associate's or higher degree; or

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- (3) (i) Met a rigorous standard of quality, and can demonstrate – through a formal State or local academic assessment – knowledge of, and the ability to assist in instructing, as appropriate:
  - (A) Reading/language arts, writing, and mathematics; or
  - (B) Reading readiness, writing readiness, and mathematics readiness.
- (ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.
- Existing paraprofessionals. Each paraprofessional who was hired on or before January 8, 2002 must meet the requirements in paragraph (c) of this section no later than January 8, 2006.

**Situation Noted:**

In the sample of 10 paraprofessionals, we noted 5 did not meet the criteria of highly qualified. The following summarizes the exceptions noted:

- 2 of the 10 had not received their high school diploma
- 3 of the 10 had not received their associate degree or equivalent units or passed the District proficiency test

**Questioned Costs:** N/A

**Recommendation:** We recommend that the District ensure that all paraprofessionals meet the appropriate qualifications.

**Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor’s recommendations. All paraprofessionals which have not met the high school diploma requirement have separated from the District. The District is continuing the implementation of its plans for full compliance including encouraging completion of the associate degree requirement, offering educational equivalent options, and reviewing benchmarks.

***Finding F-06-35 – Special Tests and Provisions (Annual Accountability Report) –Supporting Documentation***

**Finding Type:** 50000

**Federal Program:**

**Vocational Education – Basic Grants to States:** *U.S. Department of Education (DOE), Passed Through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923*



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#### **Compliance Requirement:**

*Title 20 – Education, Chapter 44 – Vocational and Technical Education, Subchapter I – Vocational and Technical Education Assistance to the States, Part A – Allotment and Allocation, Section 2323, Accountability.*

(c) Report –

- Each eligible agency that receives an allotment under Section 2321 of this title shall annually prepare and submit to the Secretary a report regarding:
  - The progress of the State in achieving the State adjusted levels of performance on the core indicators of performance; and
  - Information on the levels of performance achieved by the State with respect to the additional indicators of performance, including the levels of performance for special populations.
- Special populations – The report submitted by the eligible agency in accordance with paragraph (1) shall include a quantifiable description of the progress special populations participating in vocational and technical education programs have made in meeting the State adjusted levels of performance established by the eligible agency.

#### **Situation Noted:**

The District was unable to provide documentation to support the reported attained percentage levels of the State established core indicators of performance for academic attainment, skill attainment, high school completion, total placement, nontraditional participation and nontraditional completion for its secondary student program.

**Questioned Costs:** Not determined

**Recommendation:** We recommend that the District strengthen current policies and procedures for record retention requirements to ensure that all supporting documentation used to compile required reporting is retained.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor's recommendation. District procedures for the retention of required documentation will be reviewed and additional guidance will be provided to the programs.

This finding was based on the fact that the data reported to CDE (and examined by the auditor) was to some degree extrapolated and could not be accurately documented, since final data is not obtainable through the District's data systems until two weeks after the state's deadline for our report. Reports must be submitted by October 15th, and complete and verifiable data is not available prior to October 30th.

Providing the State with a report supported by documentation would require that 1) we request and obtain an extension on the Perkins grant deadline, which would enable us to base our report on real data, or 2)

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create a second, updated report, which would require additional resources (time, staff and labor) and additional expenditure of public funds.

#### ***Finding F-06-36 – Special Tests and Provisions (Parent Notification Letters) – Support for Notifications***

**Finding Type:** 50000

#### **Federal Program:**

**English Language Acquisition Grants:** *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed Through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

#### **Compliance Requirement:**

State of California Department of Education – Attachment A, Title III Assurances: Title III – LEP Student Program, No. 4 the LEA will comply with NCLB, Title III, Section 3302 regarding parent notifications, prior to, and throughout, each school year.

#### **Situation Noted:**

We were unable to identify controls in place to reduce the risk of noncompliance that students participating in the program receive the required notification. In the sample of 50 participating students for the 2005-2006 school year, the District was only able to provide support for 23 of the 50 student notifications made for that school year.

**Questioned Costs:** N/A

**Recommendation:** We recommend that the District ensure that all program participants receive their required notification.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor's recommendation. District will ensure sites adhere to the applicable annual parent notification requirements under Title III of the No Child Left Behind Act for Elementary Schools which require schools to use the Student Information System to send SIS generated letters to parents informing them of their child's annual academic and ELD yearly progress.

#### ***Finding F-06-37 – Special Tests and Provisions (Assessment of Need) – Support for Assessments***

**Finding Type:** 50000

#### **Federal Program:**

**Improving Teacher Quality State Grants:** *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed Through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

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#### **Compliance Requirement:**

*Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter II - Preparing, Training, and Recruiting High Quality Teachers and Principals, Part A-Teacher and Principal Training and Recruiting Fund, subpart 2-subgrants to local educational agencies, Sec. 6622. Local applications and needs assessment.*

Each application submitted under this section shall be based on the needs assessment required in subsection (c) of this section and shall include the following:

- A description of the results of the needs assessment described in subsection (c) of this section.
- In general – To be eligible to receive a subgrant under this subpart, a local educational agency shall conduct an assessment of local needs for professional development and hiring, as identified by the local educational agency and school staff.
- Requirements – Such needs assessment shall be conducted with the involvement of teachers, including teachers participating in programs under part A of subchapter I of this chapter, and shall take into account the activities that need to be conducted in order to give teachers the means, including subject matter knowledge and teaching skills, and to give principals the instructional leadership skills to help teachers, to provide students with the opportunity to meet challenging State and local student academic achievement standards.

#### **Situation Noted:**

We were unable to obtain the results of the needs assessments that were performed by the District. The District was able to provide meeting agendas that indicated student assessments, literacy/instructional strategy, analyzing student data, etc., were to be discussed at school level meetings but they were unable to provide documentation to support the outcome of those meetings and how program funds would be used to provide support for activities for skills that were determined in need.

**Questioned Costs:** N/A

**Recommendation:** We recommend that the District strengthen current policies and procedures in place to ensure that the results of the needs assessment consultations are adequately documented and communicated to District program management who make the decisions as to how the program funding should best be expended.

#### **Views of Responsible Officials and Planned Corrective Actions**

As noted in the auditors finding, the District currently performs the required needs assessments. The District will review its procedures to ensure the required documentation is retained.

#### **(4) Findings and Questioned Costs Relating to State Awards**

*S-06-01 Regular and Special Day Classes – Secondary Schools – Attendance Computations*

**Finding Types:** 10000 and 40000

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#### Schools Affected

Bethune Middle School

Gage Middle School

Garfield Senior High School

Kennedy Senior High School

North Hollywood Senior High School

#### Criteria

*California Education Code, Section 46300*, in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

#### Condition, Cause and Effect

For the six secondary schools sampled, we traced the Monthly School Statistical Report totals to the Second Principal Report (P2) and the Annual Summary Report (P3) for school month 2. We traced totals of 12,856 days of nonapportionment attendance, 15,484 days apportionment absence, 361,290 days actual attendance, and 376,773 total days apportionment attendance, and noted 1 school with differences between the month school statistical report totals and the P2 report and P3.

We also traced the days reported on the Monthly School Statistical Reports to the student apportionment attendance record card which is completed by the classroom teacher daily for a total of 2,526 days of attendance, 73 excused and 73 unexcused absences and noted differences for 5 of the 6 schools sampled. The following is a summary of the differences:

- **Bethune Middle School** – 476 days of attendance, 20 excused and 4 unexcused absences sampled and noted differences for 6 of the 25 students:
  - 3 students were overstated by one day of attendance and understated by one day unexcused absence.
  - 1 student was overstated by two days excused absence and understated by two days of unexcused absence.
  - 1 student was overstated by one day of excused absence and understated by one day unexcused absence.
  - 1 student was overstated by two days of attendance and understated by two days of unexcused absence.
- **Gage Middle School** – 414 days of attendance, 11 excused and 2 unexcused absences sampled and noted differences for 2 of the 25 students:

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- 1 student was understated by one day of attendance and overstated by one day unexcused absence.
- 1 student was overstated by two days of attendance and understated by two days of unexcused absence.
- **Garfield Senior High School** – 379 days of attendance, 24 excused and 37 unexcused absences sampled and noted differences for 7 of the 25 students:
  - 2 students were overstated by one day of attendance and understated by one day unexcused absence.
  - 4 students were overstated by one day excused absence and understated by one day of unexcused absence.
  - 1 student was understated by one day of attendance and overstated by one day unexcused absence.
- **Kennedy Senior High School** – 435 days of attendance, 10 excused and 5 unexcused absences sampled and noted differences for 4 of the 25 students:
  - 3 students were overstated by one day of attendance and understated by one day unexcused absence.
  - 1 student was understated by one day of attendance and overstated by one day unexcused absence.
- **North Hollywood Senior High School** – 394 days of attendance, 1 excused and 10 unexcused absences sampled and noted differences for 2 of the 25 students:
  - 2 students were understated by one day of attendance and overstated by one day unexcused absence.

#### Questioned Costs

\$295 [0.0569 Total ADA understated x \$5,180]

5 days Bethune overstated / 122 days in track-A school year = 0.0410 ADA

2 days Kennedy overstated / 126 days in single track school year = 0.0159 ADA

1 day Gage overstated / 119 days in track B school year = 0.0084 ADA

1 day Garfield overstated / 119 days in track B school year = 0.0084 ADA

2 days North Hollywood understated / 119 days in track B school year = (0.0168) ADA

#### Recommendation

We recommend that the schools strengthen the review process over the compilation of the Monthly Statistical Reports to ensure that the reports accurately reflect student attendance days.

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#### **Views of Responsible Officials and Planned Corrective Actions**

The new attendance system (ISIS) and procedures that will be implemented in all secondary schools in 2006-07 will reduce discrepancies in attendance by ensuring that updates to student attendance records will be automatically saved in the system's database and reflected in the monthly statistical and other District reports.

#### ***S-06-02 Regular and Special Day Classes – Special Education Schools – Attendance Computations***

**Finding Types:** 10000 and 40000

#### **Schools Affected**

Marlton Special Education Center

#### **Criteria**

*Title 5, California Code of Regulations, Section 401 (a)* – Elementary school attendance shall be kept in a state school register, as required by Section 44809, except when a central file is maintained as authorized by Education Code Section 44809.

#### **Condition, Cause and Effect**

We traced the days reported on the monthly school statistical reports to the student apportionment attendance record card which is completed by the classroom teacher daily for a total of 435 days of attendance, 11 excused and 4 unexcused absences and noted differences for the 1 school sampled for 1 of the 25 students sampled:

- 1 student was overstated by one day of attendance and understated by one day unexcused absence.

#### **Questioned Costs**

\$41 [1 day overstated for Single Track / 127 days in single track school year = 0.0079 ADA x \$5,180]

#### **Recommendation**

We recommend that the school strengthen the review process over the compilation of the Monthly Statistical Reports and Annual Summary Reports to ensure that the reports accurately reflects student attendance days.

#### **Views of Responsible Officials and Planned Corrective Actions**

The new attendance system (ISIS) and procedures that will be implemented in all secondary schools in 2006-07 will reduce discrepancies in attendance by ensuring that updates to student attendance records will be automatically saved in the system's database and reflected in the monthly statistical and other District reports.

#### ***S-06-03 Kindergarten Continuance – Parental Approval Forms***

**Finding Types:** 10000 and 40000

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#### **School Affected**

107th Street Elementary School

#### **Criteria**

*California Education Code, Section 46300 (g)* – in computing the average daily attendance of a school district, there shall be included the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Section 48011, approved in form and content by the State Department of Education and signed by the pupil's parent or guardian, that the pupil may continue in kindergarten for not more than an additional school year.

#### **Condition, Cause and Effect**

We selected a sample of 25 kindergarten students from 12 elementary schools to verify that the District obtained a signed Parental Agreement to Continue Form for pupils repeating kindergarten. From our sample, we noted one school was unable to provide a signed Parental Agreement to Continue Form for 1 student repeating kindergarten. The student attended kindergarten for a partial school year in 2004-2005, beginning on January 10, 2005. The student also attended kindergarten during 2005-2006 school year. Per review of attendance records, 33 days of attendance were claimed after one year of enrollment on January 10, 2006.

#### **Questioned Costs**

\$1,335 [33 days ineligible / 128 days in Track B school year = 0.2578 ADA x \$5,180]

#### **Recommendation**

We recommend that the school and District implement controls to maintain evidence of approved Parental Agreements to Continue Forms for all students repeating kindergarten to support the inclusion of such pupils in the average daily attendance computation.

#### **Views of Responsible Officials and Planned Corrective Actions**

District staff will work with school administrators to provide in-service training that ensures all staff are aware of the requirements for kindergarten continuance forms and that controls are in place to ensure that files are maintained properly.

*S-06-04 Attendance Accounting – Independent Study – Attendance Computations*

**Finding Types:** 10000 and 40000

#### **School Affected**

City of Angels

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#### Criteria

*California Education Code Section 51747.5 part (B)*, school districts and county offices of education may claim apportionment credit for independent study only to the extent of the time value of pupil or student work products, as personally judged in each instance by a certificated teacher.

#### Condition, Cause and Effect

We selected a sample of 25 students from 5 teachers for the second school month for a total sample of 321 days. From this sample, we compared the attendance reported on the Monthly School Statistical Report to the teacher records and student assignments noting attendance was understated by 1 day for 1 student due to a calculation error. We also noted the District was unable to provide a sample of student work product for 3 of the 25 students for the period of October 3, 2005 through October 31, 2005, which would result in an overstatement of attendance of 41 days.

#### Questioned Costs

\$1,632 [40 days overstated /127 days in single track school year = 0.3150 ADA x \$5,180]

#### Recommendation

We recommend that the school strengthen the review process over the compilation of the Monthly School Statistical Reports, to ensure that the reports accurately reflect the work assignments completed by the students. Further, we recommend the school implement controls to ensure teacher registers and student assignment sheets are consistent and accurate.

#### Views of Responsible Officials and Planned Corrective Actions

School administrators will be conducting random visits to the sites to ensure that teachers are following all procedures and maintaining all required documentation (e.g., samples of student work).

#### *S-06-05 Attendance Accounting – Independent Study – Independent Study Written Agreements*

**Finding Types:** 40000

#### School Affected

City of Angels

#### Criteria

*California Education Code Section 51747, part (c)*, a requirement that a current written agreement for each independent study pupil shall be maintained on file including the following:

- The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress.
- The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar.



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- Each written agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil. For purposes of this paragraph "caregiver" means a person who has met the requirements of Part 1.5 (commencing with Section 6550) of the Family Code.

#### Condition, Cause and Effect

We selected a sample of 25 written agreements for required elements. From this sample, we noted 3 agreements that did not contain the required elements:

- The District was unable to provide 2005-2006 fall semester written agreements for 2 student samples. The agreements provided were for the spring 2004-2005 semester.
- 1 agreement for the fall semester for 2005-2006 appeared to be a revised agreement for that semester, however it did not contain a beginning date of the agreement, the day, time and location to submit work, or a signature of the student or parent.

#### Questioned Costs

\$734 [18 days ineligible/127 days = 0.1417 x \$5,180]

#### Recommendation

We recommend that the school strengthen the review process over the student written agreements to ensure that they are completed in accordance with regulations.

#### Views of Responsible Officials and Planned Corrective Actions

The school has now centralized the enrollment process, and all agreements are reviewed centrally for completeness before a student is allowed to begin his/her independent study program.

#### *S-06-06 Attendance Accounting – Adult Education – Attendance Computations*

**Finding Types:** 10000 and 40000

#### Schools Affected

Belmont Community Adult School

#### Criteria

*Title 5, California Code of Regulations, Section 401 (d)* – In all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month. For apportionment purposes, attendance of a pupil upon schools or classes maintained by a school district or a county superintendent may be counted when the pupil is present during the time lawfully prescribed for the school or class in which he is enrolled and when such attendance meets the requirements prescribed by Education Code Section 46300.

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#### Condition, Cause and Effect

We traced the hours reported on the adult student information system reports to the supporting hard copies of the adult weekly attendance scantrons, which are completed by the classroom teacher daily and submitted to the Adult SIS to be scanned to record attendance. A total of 624.5 hours of attendance was sampled and tested. We noted differences for the one school sampled in 14 of the 30 students sampled for a total of 46 hours understated:

- 4 students were understated by 2.5 hours
- 2 students were understated by 6 hours
- 4 students were understated by 4 hours
- 2 students were understated by 2 hours
- 1 student was understated by 3 hours
- 1 student was understated by 1 hour

#### Questioned Costs

(\$209) [46 hrs understated / 3 hrs per day = 15.33 days/175 fixed divisor = (0.0874) ADA x \$2,389

#### Recommendation

We recommend that the school emphasize the need to take greater care in completing the scantrons that will be used to record attendance to ensure that they are properly filled in and readable.

#### Views of Responsible Officials and Planned Corrective Actions

The school has provided training to faculty and staff, and implemented new document procedures which have improved the accuracy and completeness of the attendance reported. The school will continue to provide training, and to monitor adherence to procedures to ensure more accurate reports.

#### *S-06-07 Attendance Accounting – Adult Education – Concurrently Enrolled Students*

**Finding Types:** 10000 and 40000

#### Schools Affected

Belmont Community Adult School

#### Criteria

*California Code of Education, Section 50500.1*, High school pupils who have completed a counseling session that involved the pupil, a certificated representative of the high school, and the pupil's parent or guardian, and who have a school record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education course or class, and that enrollment in an adult education program, course, or class will enhance the pupil's progress toward meeting the educational requirements for graduation from high school.

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#### Condition, Cause and Effect

In our sample of concurrently enrolled students we noted exceptions in the documentation requirements in 8 of the 26 sampled. We noted differences in the following documentation areas:

- 4 students were incorrectly classified as concurrently enrolled
- 4 students did not have evidence of a counseling session.

#### Questioned Costs

\$2,078 [458.3 hours ineligible/3 hours per day/175 fixed divisor x \$2,389]

#### Recommendation

We recommend that the school strengthen the review process over the Concurrently Enrolled Student Agreements to ensure the agreements are complete and that students are only enrolled in State approved courses.

#### Views of Responsible Officials and Planned Corrective Actions

School has implemented new procedures to verify signatures and student information folders. School administrators will ensure that the counseling intake process between High School and Adult School Staff is conducted properly. School administrators will continue to conduct follow-up of student folders.

#### *S-06-08 Attendance Accounting – Continuation Education – Attendance Computations*

**Finding Types:** 10000 and 40000

#### Schools Affected

Zane Grey Continuation High School

#### Criteria

*Title 5, California Code of Regulations, Section 401(d)* – in all classes for adults, continuation schools, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month. For apportionment purposes, attendance of a pupil upon schools or classes maintained by a school district or a county superintendent may be counted when the pupil is present during the time lawfully prescribed for the school or class in which he or she is enrolled and when such attendance meets the requirements prescribed by Education Code Section 46300.

*California Education Code, Section 46170* – in continuation high schools and continuation education classes, a day of attendance is 180 minutes of attendance but no pupil shall be credited with more than 15 hours of attendance per school week, proportionately reduced for those school weeks having weekday holidays on which classes are not held.

#### Condition, Cause and Effect

In the one continuation school sampled, we attempted to trace the Monthly School Statistical Reports to the Second Principal Report (P2) and to the Annual Summary Report (P3) for school month 2. The Monthly

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School Statistical Report indicated a total of 7,294 hours (2,431.33 days) of apportionment attendance which consisted of 889 hours (296.33 days) of special education apportionment and 6,405 hours (2,135 days) of continuation apportionment attendance. We were unable to reconcile the totals reported on the Monthly School Statistical Report to the P2 or P3 report. The P2 detail for the same period contained a total of 2,616.33 days of apportionment attendance (2,393.33 days continuation and 223.00 days of special education), which therefore appears to be overstated by 185 days.

We also selected a sample of 25 students for four weeks of attendance in the District's second school month for a total of 1,164 apportionment hours claimed. We noted differences in 9 of the 25 participants which resulted in a net 36 hour overstatement of apportionment hours claimed by the District. The following is a summary of the differences noted:

- 1 student was understated by 5 hours of apportionment attendance.
- 2 students were understated by 1 hour of apportionment attendance.
- 1 student was overstated by 28 hours of apportionment attendance.
- 1 student was overstated by 10 hours of apportionment attendance.
- 1 student was overstated by 7 hours of apportionment attendance.
- 1 student was overstated by 19 hours of apportionment attendance.
- 1 student was understated by 2 hours of apportionment attendance.
- 1 student was understated by 19 hours of apportionment attendance.

#### **Questioned Cost**

\$8,098 [185 days + 12 days (36 hours/3) /126 = 1.5635 ADA x \$5,180]

#### **Recommendation**

We recommend that the school maintain copies of all Monthly School Statistical Report submissions, including revisions, to ensure that attendance documentation can support attendance reported.

#### **Views of Responsible Officials and Planned Corrective Actions**

The statistical report indicating 7,294 hours is a revised report submitted by the school in November 2006, months after the District's P2 and Annual reports have been submitted to the State. The District intends to submit revised P2 and Annual reports reflecting the decreased attendance by March 1, 2007.

The new attendance system (ISIS) and procedures that will be implemented in all secondary schools in 2006-07 will reduce discrepancies in attendance by ensuring that updates to student attendance records will be automatically saved in the system's database and reflected in the monthly statistical and other District reports.

#### ***S-06-9 Attendance Accounting – Continuation Education – Work Experience***

**Finding Types:** 10000 and 40000

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#### Schools Affected

Zane Grey Continuation High School

#### Criteria

*California Education Code 48400* – All persons 16 years of age or older and under 18 years of age, not otherwise exempted by this chapter, shall attend upon special continuation education classes maintained by the governing board of the high school district in which they reside, or by the governing board of a neighboring high school district, for not less than four 60-minute hours per week for the regularly established annual school term. Such minimum attendance requirement of four 60-minute hours per week may be satisfied by any combination of attendance upon special continuation education classes and regional occupational centers or programs.

*California Education Code Section 51760.3(b)* – All pupils are required to receive at least one instructional period per week of classroom work experience instruction or counseling.

#### Condition, Cause and Effect

For our one continuation school sampled, we selected a sample of 25 work experience participants in the District's second school month for the week ended October 7, 2005, which reported a total of 90 hours of apportionment attendance. We noted one participant was claimed for 10 hours of apportionment attendance however the school could not provide support for that participant's attendance in 4 60-minute hours of school attendance for the week. We also noted that the school's work experience program does not require participants to attend an instructional period of classroom work experience instruction or counseling. The school asserts that it performs this service to its participants on an informal basis. We were unable to obtain support that the 25 students sampled received the required instructional period of instruction or counseling.

#### Questioned Costs

\$1,233 [30 days overstatement (90 hours / 3) / 126 = 0.2381 ADA x \$5,180]

#### Recommendation

We recommend that the school monitor the students' attendance of the instructional periods of work experience instruction to ensure that they do not claim any hours of work experience for which the students do not attend the required instruction.

#### Views of Responsible Officials and Planned Corrective Actions

District staff will ensure that the school incorporates the 1 hour of work experience instruction/counseling into their work experience program curriculum.

#### *S-06-10 Attendance Reporting – Community Day School – Attendance Reporting Errors*

**Finding Types:** 10000 and 40000

#### Schools Affected

Johnson Community Day School

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### Criteria

*California Education Code, Section 48663*, (a) the minimum school day in a community day school is 360 minutes of classroom instruction provided by a certificated employee of the district reporting the attendance of the pupils for apportionment funding, (b) a pupil enrolled in a community day school may not generate more than one day of community day school attendance credit in a school day for any purpose. Five clock hours of attendance in one school day shall be deemed to be one half day of attendance, for purposes of additional funding pursuant to Section 48664. Six clock hours or more of attendance in one school day shall be deemed to be one day of attendance, for purposes of additional funding pursuant to Section 48664.

#### Condition, Cause and Effect

For the one community day school sampled, we traced the hours reported on the student information system AT-06 reports, to the supporting copies of the monthly teacher attendance record which is completed by the classroom teacher daily for each hour attended. The student information system data is used to compile the P2 and P3 reports. A total of 25 students were sampled for 6 daily hours for 5 days. A total of 575 reported hours of apportionment attendance, 170 nonapportioned absences, and 5 hours not enrolled were sampled, of which we noted differences in 15 of the 25 students sampled for 36 of the 125 days a total difference of 50 hours of apportionment attendance understated, 60 hours overstated nonapportionment absence, and 10 hours understated not enrolled. The following summarizes the student differences:

- 6 student days actual hours of apportionment attendance were understated by 3 hours and nonapportionment absences were overstated by 3 hours.
- 8 student days actual hours of apportionment attendance were understated by 1 hour and nonapportionment absences were overstated by 1 hour.
- 4 student days actual hours of apportionment attendance were understated by 2 hours and nonapportionment absences were overstated by 2 hours.
- 2 student days actual hours of apportionment attendance were understated by 5 hours and nonapportionment absences were overstated by 5 hours.
- 3 student days actual hours of apportionment attendance were understated by 4 hours and nonapportionment absences were overstated by 4 hours.
- 2 student days actual hours of apportionment attendance were understated by 1 hour and nonapportionment absences were overstated by 2 hours and hours not enrolled were understated by 1 hour.
- 1 student days actual hours of apportionment attendance were understated by 2 hours nonapportionment absences were overstated by 3 hours and hours not enrolled were understated by 1 hour.
- 1 student days actual hours of apportionment attendance were understated by 3 hours and nonapportionment absences were overstated by 4 hours and hours not enrolled were understated by 1 hour.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- 1 student days actual hours of apportionment attendance were overstated by 1 hours and hours not enrolled were understated by 1 hour.
- 6 student days actual hours of apportionment attendance were overstated by 1 hour and hours of nonapportionment absences were understated by 1 hour.
- 1 student day actual hours of apportionment attendance were overstated by 3 hours and hours of nonapportionment absences were understated by 3 hours.
- 1 student day actual hours of apportionment attendance were overstated by 2 hours and hours of nonapportionment absences were understated by 2 hours.

In our sample of 25 students we tested whether the student's class assignment was at least 360 minutes and noted 2 of the 25 students were only scheduled for 300 minutes instead of the required 360 minutes due to student withdraw from classes.

#### Questioned Costs

(\$475) [Understated by 16.66 days (50 hours)/ 180 (fixed divisor) = 0.0926 ADA x \$5,133]

#### Recommendation

We recommend that the school review the current hourly attendance record keeping procedures to ensure that the school records accurately reflect each hour of student attendance or absence.

#### Views of Responsible Officials and Planned Corrective Actions

District staff will work with the school administrators to implement procedures that ensure accurate recording and reporting of attendance/absences. In addition, the new attendance system (ISIS) is being developed to address the attendance recording and reporting requirements of community day schools. ISIS will reduce discrepancies in attendance by automatically updating the database for changes in student attendance records and reflecting these changes in the monthly statistical and other District reports.

#### *S-06-11 Attendance Reporting – Teacher Credentialing*

**Finding Types:** 10000, 40000, and 71000

#### School Affected

Corona Elementary School

Miramonte Elementary School

#### Criteria

*California Education Code, Section 45037.* (a) Except as provided in Section 45036, for the fiscal year 2001-02 and for any fiscal year thereafter in which a person renders service as a teacher in kindergarten or any of grades 1 to 12, inclusive, who does not have a valid certification document, the school district or county office of education in which the person is employed shall be assessed a penalty that shall be in lieu of any loss of funding that would otherwise result under Chapter 6.10(commencing with Section 52120) of

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part 28. The penalty shall be calculated as provided in subdivision (b) and withheld from state funding otherwise due to the district or county office of education.

- (a)
  - (1) Notwithstanding Section 46300, the attendance of the noncertificated person's pupils during the period of service shall be included in the computation of average daily attendance.
  - (2) The noncertificated person's period of service shall not be excluded from the determination of eligibility for incentive funding for a longer instructional day or year, or both, pursuant to Article 8 (commencing with Section 46200) of Chapter 2 of Part 26.
- (b)
  - (1) For each person who rendered service in the employment of the district or county office of education as a teacher in kindergarten or any of grades 1 to 12, inclusive, during the fiscal year, add the total number of schooldays on which the person rendered any amount of the service.
  - (2) For each person who rendered service in the employment of the district or county office of education as a teacher in kindergarten or any of grades 1 to 12, inclusive, during the fiscal year, for a period of service during which the person did not have a valid certification document, add the number of schooldays on which the person rendered any amount of the service without a valid certification document.
  - (3) Divide the number determined in paragraph (2) by the number determined in paragraph (1) and carry the result to four decimal places.
  - (4) Multiply a school district's revenue limit entitlement for the fiscal year, calculated pursuant to Section 42238, or its funding amount calculated pursuant to Article 4 (commencing with Section 42280) of Chapter 7 of Part 24, as applicable, or a county office of education's funding for the fiscal year, for the program in which the noncertificated person rendered service by the number determined in paragraph (3).

#### **Condition, Cause and Effect**

During our procedures performed over regular and special day classes, adult education, continuation, community day school for each class sampled for attendance procedures, we reviewed the classroom teacher's credentials to determine if they possessed valid credentials and if their teaching position assigned was consistent with the certification. We tested a total of 114 teachers and we noted 2 exceptions for K-12 teachers that contained emergency 30-day substitute teaching permits that taught more than the allowable 30 days in a particular assignment:

- Corona Elementary – one teacher worked as a substitute for 208 days out of the school year. For one assignment sampled the teacher worked 34 days.
- Miramonte Elementary – one teacher worked as a substitute for 234 days out of the school year. For one assignment sampled the teacher worked 40 days and for another assignment sampled the teacher worked 44 days.



**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Questioned Costs**

\$13,126 [28 days (4+10+14)/442 days taught] x [average 20 students x \$5,180 x 2 teachers]

**Recommendation**

We recommend that the school and District implement controls to maintain ensure all teachers are properly assigned.

**Views of Responsible Officials and Planned Corrective Actions**

The District agrees with the auditor's finding. The District is currently implementing a new ERP system, SAP, which will include position control. With the new system, additional controls will be in place to prevent credentialing problems. The Payroll portion of SAP will be implemented January 1, 2007.

***S-06-12 Morgan-Hart Class Size Reduction Program – Eligible Classes***

**Finding Type:** 40000

**Schools Affected**

Boyle Heights High School

Harris Newmark High School

John Wooden High School

Moneta High School

Simon Rodia High School

Evergreen High School

**Criteria**

*California Education Code, Section 52084* – A school district's application to implement a program pursuant to this chapter shall comprise the following:

- Certification that the grade 9 course or the two grade 9 courses included in the program count toward completion of the graduation requirements established in subparagraph (A), (B), (C), or (D) of paragraph (1) of subdivision (a) of Section 51225.3; provided, however, that one of the courses included in the program shall be English.
- Certification that the classes identified pursuant to subdivision (b) in each participating school shall on the average have no more than 20 pupils per certificated teacher and no more than 22 pupils in any participating class.

**Condition, Cause and Effect**

In our sample of 25 classes at 25 schools claimed as part of the Morgan-Hart class size reduction program we noted:

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- 3 of the 25 classes were unable to provide attendance documentation to support their compliance with the program class size requirement.
- 1 of the 25 classes incorrectly claimed a class that does not count toward graduation requirements.
- 2 of the 25 classes contained over 22 students enrolled in classes in days that were sampled.
  - In the 15 days sampled for one class we noted 1 day contained 25 students.
  - In the 15 days sampled for one class we noted 9 of days contained students ranging from 23 to 31.

**Questioned Costs**

School Name	Weighted class size	Days per year	FYEE	Rate	Amount
Boyle Heights High School	1.00	180	0.3833	192	\$ 74
Harris Newmark High School	12.35	180	3.7055	192	711
John Wooden High School	2.00	180	0.2222	192	43
Simon Rodia High School	17.00	180	3.5888	192	689
Moneta High School	17.02	180	5.1055	192	980
Evergreen High School	20.33	180	10.3888	192	1,995
	<u>69.70</u>		<u>23.3941</u>		\$ <u>4,492</u>

**Recommendation**

We recommend that the District ensure that the classes claimed for class size reduction meet the State required average class size.

**Views of Responsible Officials and Planned Corrective Actions**

The District will revise the 2005-06 Morgan-Hart Report of Enrollment to delete the classes from the report. District staff will send out more specific procedures to schools regarding Morgan-Hart guidelines and proper documentation of enrollment in the Morgan-Hart classes. Also, the District staff will ensure that the procedures are included in training sessions conducted by the District and schools. District staff will ensure that the Morgan-Hart guidelines and report requirements are in place for the new student information system (ISIS).

***S-06-13 Instructional Materials – Insufficiency of Textbooks and Instructional Materials***

**Finding Types:** 40000 and 70000

**Criteria**

*California Education Code, Section 60119, Pupil Textbook and Instructional Materials Incentive Program:*

- (1) (A) The governing board shall hold a public hearing or hearings at which the governing board shall encourage participation by parents, teachers, members of the community interested in the affairs of the school district, and bargaining unit leaders, and shall make a determination,

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

through a resolution, as to whether each pupil in each school in the district has sufficient textbooks or instructional materials, or both, that are aligned to the content standards adopted pursuant to Section 60605 in each of the following subjects, as appropriate, that are consistent with the content and cycles of the curriculum framework adopted by the state board:

- (i) Mathematics.
  - (ii) Science.
  - (iii) History-social science.
  - (iv) English/language arts, including the English language development component of an adopted program.
- (B) The public hearing shall take place on or before the end of the eighth week from the first day pupils attend school for that year. A school district that operates schools on a multitrack, year-round calendar shall hold the hearing on or before the end of the eighth week from the first day pupils attend school for that year on any tracks that begin a school year in August or September. For purposes of the 2004-05 fiscal year only, the governing board of a school district shall make a diligent effort to hold a public hearing pursuant to this section on or before December 1, 2004.
- (2) (A) If the governing board determines that there are insufficient textbooks or instructional materials, or both, the governing board shall provide information to classroom teachers and to the public setting forth, for each school in which an insufficiency exists, the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area and the reasons that each pupil does not have sufficient textbooks or instructional materials, or both, and take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that each pupil has sufficient textbooks or instructional materials, or both, within two months of the beginning of the school year in which the determination is made.

#### **Condition, Cause and Effect**

We reviewed the District's Board of Education Report 93-05/06 regarding the District's textbooks and instructional materials certification resolution. This resolution was adopted by the Board on November 15, 2005, which was not before the end of the eighth week from the first day pupils attend school for that year. The adoption was made approximately 10 weeks after the District's first day of instruction of September 6, 2006.

We also noted the following assertions regarding the insufficiency of textbooks in core subject areas but did not note any quantifications of percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area:

“Resolved, That the Board of Education of the City of Los Angeles finds that, Principals at all K-12 schools have certified to the District the extent to which their schools have textbooks available for use by students in class and for homework. Principals who indicated a lack of textbooks in core

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

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subject matters indicated they ordered the necessary textbooks, or they were given budgetary authority to order textbooks, or District staff have otherwise assisted the principals, on a priority basis, in their efforts to secure the necessary textbooks; and

Resolved further, the Board of Education finds that the County Office of Education has made audit visits to at least 173 Los Angeles Unified Schools between July 1, 2005 and November 8, 2005 and those audits have identified 45 specific instances where textbook insufficiencies existed at those schools and District staff is working to ensure that each identified deficiency is remedied on a priority basis; and

Resolved further, At present, all outstanding requests for textbooks or instructional materials, or both, in Core and Required Subject Areas (except history/social science) have been fully funded and ordered (or will be ordered on a priority basis) but not yet received at all school sites. Therefore, there are, at present, insufficiencies in textbooks and instructional materials at some school sites. However, as more fully set forth in the District's Textbook Policies and School Site Procedures Reference Guide and Targeting the Purchase of Textbooks Reference Guides, the Williams Uniform Compliant Procedure and the District's Procedures for Reporting Textbook Concerns Reference Guide after receipt of all outstanding purchase orders, each pupil in each school in the District will have sufficient textbooks and instructional materials, or both, in the Core and Required Subject Areas.

Resolved further, the Board of Education directs the Superintendent, or his designee, to bring forward recommendations for the adoption of standards-based history/social science textbooks based upon the textbook adoption by the State Board of Education and completion of the District's textbook committee selection process; and

Resolved further, the Board of Education hereby directs the Superintendent of Schools, or designee, to communicate to the staff of each school and community stakeholders why there may be insufficient in the textbooks and instructional materials at present, and when and by which means will pupils have sufficient textbooks or instructional materials, or both, in the Core and Required Subject Areas."

#### **Questioned Costs**

\$37,543,424 (full amount of Instructional Materials Funding Realignment Program)

#### **Recommendation**

We recommend that the District take steps to ensure compliance with Education Code Section 60119 for the school year ended June 30, 2007.

#### **Views of Responsible Officials and Planned Corrective Actions**

The District believes the resolution regarding textbooks and instructional materials ("Textbook Resolution") adopted November 15, 2005, by the Board of Education substantially meets the requirements of section 60119 of the Education Code. The District notes further that the textbook and instructional materials resolution adopted October 2006 was timely and in full compliance with section 60119. The District intends to meet all requirements of this statute in future years.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

The audit finding discussed-above raises two concerns regarding the Textbook Resolution: namely, that the public hearing on the Resolution was held a week later than allowed under the statute; and that certain information about the percentage of pupils without textbooks and instructional materials was omitted from the Resolution itself. As discussed below, staff believes these issues are minor in nature.

First, as to the timeliness of the Resolution, District staff notes the public hearing was initially scheduled within the first eight weeks of the beginning of school year, as required under section 60119. Further, notice of and materials related to the Resolution had been made available to the public within this eight-week interval. Finally, the public hearing had been initially scheduled for November 8, 2005, within the statutorily-required timeframe. However, this November 8th, 2005 Board of Education meeting was subsequently cancelled because it coincided with the date of a local election on which a LAUSD bond measure was considered. The Textbook Resolution was adopted, after a public hearing, one week later, at the next available Board of Education meeting.

Second, the audit finding indicates that the Resolution does not itself contain certain information about the percentage of pupils, by grade level and school site, that lacked the Core and Required textbooks. In 2005, the District accomplished this task of informing school communities about textbook and instructional materials deficiencies (including the percentage of students lacking such textbooks and/or instructional materials) on a schoolsite-by-schoolsite basis. The Resolution delegates to the Superintendent of Schools, or his designee, this task of communicating to school site communities about such deficiencies.

Staff believes the purposes of section 60119 were met through this communication process. Staff also notes that the textbook and instructional materials resolution adopted by the Board of Education on October 2006 contains a spreadsheet which lists deficiencies by school site, subject area, and percentage of pupils without textbooks and other required information.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

***S-06-14 Proposition 20 Lottery Funds –Qualifying Instructional Materials***

**Finding Types:** 40000

**Criteria**

*California Education Code, Section 60010:*

- “Basic instructional materials” means instructional materials that are designed for use by pupils as a principal learning resource and that meet in organization and content the basic requirements of the intended course.
- “Instructional materials” means all materials that are designed for use by pupils and their teachers as a learning resource and help pupils to acquire facts, skills, or opinions or to develop cognitive processes. Instructional materials may be printed or non-printed, and may include textbooks, technology-based materials, other educational materials, and tests.
- “Supplementary instructional materials” means instructional materials designed to serve, but not be limited to, one or more of the following purposes, for a given subject, at a given grade level:
  - (1) To provide more complete coverage of a subject or subjects included in a given course.
  - (2) To provide for meeting the various learning ability levels of pupils in a given age group or grade level.
  - (3) To provide for meeting the diverse educational needs of pupils with a language disability in a given age group or grade level.
  - (4) To provide for meeting the diverse educational needs of pupils reflective of a condition of cultural pluralism.
- “Technology-based materials” means those basic or supplemental instructional materials that are designed for use by pupils and teachers as learning resources and that require the availability of electronic equipment in order to be used as a learning resource. Technology-based materials include, but are not limited to, software programs, video disks, compact disks, optical disks, video and audio tapes, lesson plans, and data bases. Technology-based materials do not include the equipment required to make use of those materials.

**Condition, Cause and Effect**

We selected a sample of 25 expenditures paid from the District’s proposition 20 lottery funds to determine whether the expenditures were spent on qualifying instructional materials. Of the 25 expenditures sampled, 3 expenditures did not appear to qualify as basic, supplementary, or technology-based instructional materials. The following is the detail of the exceptions noted:

- 1 multipurpose shredder for \$1,356
- 20 compact CD players totaling \$3,261
- 50 orange mesh vests totaling \$406

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### Questioned Costs

\$5,023 of the \$142,222 sampled

#### Recommendation

We recommend that the District strengthen controls over the authorization of proposition 20 lottery expenditures to ensure they are made for qualifying expenditures.

#### Views of Responsible Officials and Planned Corrective Actions

Qualifying instructional materials expenditures are identified through their expense object codes. Additional training will be provided to emphasize the need to properly code purchases to ensure they are properly reflected in the appropriate expense object codes.

#### *S-06-15 California School Age Families Education (Cal-SAFE) – Attendance Computations*

**Finding Types:** 10000 and 40000

#### School Affected

Roosevelt High School

Jordan High School

#### Criteria

*California Education Code, Section 54749*, (a) For the 2000-01 fiscal year and each fiscal year thereafter, a school district or county superintendent of schools participating in Cal-SAFE is eligible for state funding from funds appropriated for services provided for the purposes of the program as follows:

- Average daily attendance and revenue limit funding for pupils receiving services in the Cal-SAFE program shall be computed pursuant to provisions and regulations applicable to the educational program or programs that each pupil attends, except as provided in paragraph (3).

#### Condition, Cause and Effect

In the 2 Cal-SAFE schools sampled, we traced the days reported on the Monthly School Statistical Reports to the attendance record which is completed by the classroom teacher daily for a total of 308 days of attendance for 28 students noted differences netting to one day overstatement for both schools sampled. The following is a summary of the differences:

- **Roosevelt High School** – 210 days of attendance sampled with noted differences for 5 of the 20 students:
  - 4 students were overstated by one day of attendance
  - 1 student was overstated by two days attendance
- **Jordan High School** – 98 days of attendance sampled and noted differences for 6 of the 8 students:
  - 4 students were understated by one day of attendance

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- 1 student was understated by two days of attendance
- 1 student was overstated by one days of attendance

**Questioned Costs**

\$14 [1day overstated / 180 divisor = 0.0056 ADA x \$2,530]

**Recommendation**

We recommend that the school strengthen the review process over the compilation of the Monthly School of Statistical Reports to ensure that the report accurately reflects student attendance days.

**Views of Responsible Officials and Planned Corrective Actions**

The District will work with the schools' administrators to ensure that schools submit revised reports to reflect changes in student attendance records.

***S-06-16 School Accountability Report Card – Sufficiency of Textbooks and Adequate School Facilities***

**Finding Types:** 40000, 70000, and 72000

**Criteria**

*California Education Code, Section 33126:*

- (a) The School Accountability Report Card shall provide data by which a parent can make meaningful comparisons between public schools that will enable him or her to make informed decisions on which school to enroll his or her children.
- (b) The school accountability report card shall include, but is not limited to, assessment of the following school conditions:
  - Quality and currency of textbooks and other instructional materials, including whether textbooks and other materials meet state standards and are adopted by the State Board of Education for kindergarten and grades 1 to 8, inclusive, and adopted by the governing boards of school districts for grades 9 to 12, inclusive, and the ratio of textbooks per pupil and the year the textbooks were adopted.
  - The availability of sufficient textbooks and other instructional materials, as defined in Section 60119, for each pupil, including English learners, in each of areas enumerated in clauses (i) to (iii), inclusive. If the governing board determines, pursuant to Section 60119 that there are insufficient textbooks or instructional materials, or both, it shall include information for each school in which an insufficiency exists, identifying the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area. The subject areas to be included are all of the following:
    - (i) The core curriculum areas of reading/language arts, mathematics, science, and history/social science.
    - (ii) Foreign language and health.



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- (iii) Science laboratory equipment for grades 9 to 12, inclusive, as appropriate.
- Safety, cleanliness, and adequacy of school facilities, including any needed maintenance to ensure good repair as specified in Section 17014, Section 17032.5, subdivision (a) of Section 17070.75, and subdivision (b) of Section 17089.

*California Education Code, Section 17014* – For purposes of this subdivision, the term “major maintenance, repair, and replacement” means roofing, siding, painting, floor and window coverings, fixtures, cabinets, heating and cooling systems, landscaping, fences, and other items designated by the governing board of the school district.

*California Education Code, Section 17002* – “Good repair” means the facility is maintained in a manner that assures that it is clean, safe, and functional as determined pursuant to an interim evaluation instrument developed by the Office of Public School Construction. The instrument shall not require capital enhancements beyond the standards to which the facility was designed and constructed.

#### **Condition, Cause and Effect**

We selected a sample of 25 schools and obtained the complaints compiled on the District’s quarterly report of summarized complaint data to determine whether complaints related to teacher misassignments or vacancies, inadequate school facilities or insufficient textbooks or instructional materials, were noted on the annual School Accountability Report Cards (SARC) for the fiscal year ended June 30, 2005.

- For our sample of 25 schools selected, we noted that District-wide information regarding the sufficiency of the standards-aligned textbooks and other instructional materials was reported on all 25 samples. Due to the insufficiencies noted in District-wide core curriculum areas, the District was required to identify the percentage of pupils who lack sufficient textbooks and instructional materials but this information was not indicated.
- The District indicated that they adopted the required Interim Evaluation Instrument developed by the Office of Public School Construction, pursuant to the provisions of subdivision (d) of Education Code 17002. The District provided a sample template entitled *State of California, Interim Evaluation Instrument, School Facility Conditions Evaluation* from the State Allocation Board Office of Public School Construction. However, the District was unable to provide any of the completed Interim Evaluation Instruments for 25 sampled schools. Instead, the District utilized a database entitled *OEHS Safety Inspection* to prepare the information on the safety, cleanliness, and adequacy of school facilities contained in the June 30, 2005 SARC reports. Based on our review of this database report, we noted some of the schools’ most recent inspection dates were in February, March, and June of 2004, thus before the beginning of the year covered by the SARC.

#### **Questioned Costs**

Not applicable

#### **Recommendation**

We recommend that the District enhance current controls and procedures related to the completion of the SARC reports to ensure full compliance for the year ended June 30, 2007.

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2006

#### **Views of Responsible Officials and Planned Corrective Actions**

District disagrees with the finding related to reporting the Sufficiency of Textbooks that ...”the district was required to identify the percent of pupils who lack sufficient textbooks and instructional materials but this information was not indicated.” California Department of Education (CDE)’s “SARC Guide for Implementing Senate Bill 687”, states that for the 2005-06 publication of the SARC the following:

*To the extent that the required data are available, LEAs are required to prepare and distribute the new and revised reporting elements as part of their 2004-05 report cards to be published in the 2005-06 school year. If the required data are not available, LEAs are required to collect the required data for inclusion in the 2005-06 report cards to be published in the 2006-07 school year.*

The District followed the CDE guidelines cited above and is in compliance on this issue. The percentage of pupils who lack sufficient textbooks and instructional materials data was not available for 2004-05 and it was not required to be published. And following the same guidelines, LAUSD will include the percentages in the 2005-06 version of the SARC, as required, which will be published early January 2007.

**INDEPENDENT AUDITORS' MANAGEMENT LETTER**



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December 11, 2006

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

Members of the Board:

We have audited the basic financial statements of Los Angeles Unified School District (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 6, 2006. In planning and performing our audit of the financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the District.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under auditing standards generally accepted in the United States of America. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.

The reportable conditions noted during our audit, all of which have been discussed with the appropriate members of management, are summarized as items FS-06-01 through FS-06-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.



The Honorable Board of Education  
Los Angeles Unified School District  
December 11, 2006

Although not considered to be reportable conditions, we also noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the following report to management on pages 275 to 285.

\* \* \* \* \*

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2006 financial statements, and this communication does not affect our report on these financial statements dated December 6, 2006. We have not considered internal control since the date of our report.

This communication is intended solely for the information and use of the Board of Education, District management, State Controller's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Observations and Recommendations

June 30, 2006

### CASH AND INVESTMENTS

#### (1) Finance and Treasury – Check Receipt Process – Prior-Year Observation

##### *Observation*

Controls over the check receipts process could be improved. Currently, some checks are received at various satellite locations before they are centrally processed through the Cash Receipts Unit. Checks are date stamped as the Cash Receipts Unit receives them. However, we noted that there is no check tracking system in place to ensure that all checks received at the satellite locations have been handled in an appropriate fashion. The direct effect of not tracking checks from receipt stage to deposit is that checks may be misplaced, or become lost in transit while they are transferred to the Cash Receipts Unit. This gives rise to the fraud risk that misplaced checks may be defalcated or misappropriated.

##### *Recommendation*

We propose that management prepare a check receipts log at each satellite location to track checks as they come in. The Cash Receipts Unit also needs to prepare a tracking log, and the two lists should be independently reconciled to ensure all deposits that the District receives are being handled appropriately. We recognize that the District is the recipient of many checks with a low dollar value.

##### *Management Response*

The District believes that the cost of staffing required to prepare check receipt logs at each school and office site and to reconcile those logs to the deposits outweigh the low dollar amount of the checks involved.

#### (2) Use of Service Organizations – Prior-Year Observation

##### *Observation*

While we managed to obtain Type 2 SAS 70 reports during our procedures, the District currently does not perform the procedure of obtaining SAS 70 reports from its financial institutions or third-party administrators. A Type 2 SAS 70 report is a report that describes the internal controls at the third-party administrator and whether those controls operated effectively during the period audited.

In addition, the District does not require that the Los Angeles County Office of Education (LACOE) have a SAS 70 review be performed. LACOE performs a variety of procedures on the District's behalf, including processing vendor payments and employee paychecks. As a result, the District does not know the adequacy of the internal controls over these areas.

##### *Recommendation*

We recommend that the District obtain and review Type 2 SAS 70 reports from banks for their cash accounts as well as for Investments, Workers' Compensation, General Liability, and Health and Welfare Benefits, as a part of its normal operation (outside of the audit process). The District should also work with LACOE to encourage them to have such a review performed.

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### *Management Response*

The District has established procedures to request SAS 70 reports from the primary banks with whom we have banking relationships. However, because schools and offices are allowed to open imprest accounts at local banks, it is not considered practical at this time to obtain such reports for all banks used by the District. The District will also discuss with LACOE the benefits of a SAS 70 report.

## COMPLIANCE

### (3) Grants Management – Prior-Year Observation

#### *Observation*

During procedures performed during our compliance audits of Federal and State awards, we noted that similar issues and findings relating to compliance with rules, laws and regulations that had arisen in District programs in the prior year arose again in the current year in both the same programs previously audited and in other District programs not recently audited. Each individual department/program is responsible for interpretation of, and compliance with, regulations and compliance with grants and other awards. The District does not currently have an individual charged with overseeing all grant programs that can disseminate information that is learned from one program with all programs throughout the District.

In addition, we noted that changes in various grant and award terms and the changing compliance requirements imposed by both the Federal government and the State of California are not always understood or communicated to the individuals responsible for administering and ensuring compliance with program requirements.

As a result, many findings and questioned costs, which may need to be returned to the funding agencies, were required to be reported to the District in the reports on Federal and State compliance.

#### *Recommendation*

We recommend that the District consider establishing a position with an individual responsible for training and oversight of individuals responsible for program administration and compliance. This will help to ensure that all requirements applicable to programs are shared and understood among all programs throughout the District and that any new laws or regulations impacting funding received by the District be communicated to those individuals responsible for program compliance.

#### *Management Response*

The District agrees with this recommendation. We are in the process of identifying resources to fund staff to perform this function.

### (4) Program Monitoring

#### *Observation*

Four grant award contracts selected for testing did not have the signature of the head accountant evidencing approval for the assignment of a unique reference number or from the accounting analyst who would be responsible for monitoring the program.

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#### ***Recommendation***

We recommend that the District ensure that all documents needing evidence of approval have the signature of authorizing administrator.

#### ***Management Response***

Each grant is assigned a unique reference number based on a sequential numbering system. The head accountant reviews the grant award and officially assigns the grant to an accounting analyst who would be responsible for monitoring the grant by putting her initials on the document. The original signed copy is kept in an SFP central filing location.

Thus, it appears that the copies of the grant award given to the auditors were initial copies that the analyst had received from other sources and not copies of the official documents maintained at the SFP central filing location.

### FIXED ASSETS

#### **(5) Accounting for Leases – Prior-Year Observation**

##### ***Observation***

Statement of Financial Accounting Standards No. 13, *Accounting for Leases* (SFAS No. 13), requires leases to be analyzed at their inception to determine if they meet one of the four criteria for capitalization. These criteria include:

- (a) transfer of ownership
- (b) presence of bargain purchase
- (c) term of the lease is equal to 75% or more of the estimated life of leased property
- (d) the present value of minimum lease payments equals or exceeds 90% of the excess of the fair value of leased property.

We noted, however, that the district uses only one criterion to evaluate whether equipment leases need to be classified as capital leases (the 75% criterion). In addition, no similar analysis is being done for real estate leases.

Failure to assess real estate and equipment leases using the four criteria provided by SFAS No. 13 could result in understatement of fixed asset and lease obligation.

##### ***Recommendation***

We recommend that management develop policies and procedures to assist the District staff in determining the treatment of leases. The District should consider training the responsible staff to classify a lease as a capital lease if a particular lease meets any one of four criteria noted above. To facilitate this process, accounting personnel should have direct access to the original lease agreements, or all the necessary



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information should be collected into the system so that determination can be made during the District's annual lease review process.

### ***Management Response***

The District concurs with the finding for increased documentation and training. The Accounting Controls Branch is currently developing procedures to properly classify leases and to ensure all leases are reported to the district office. The new procedures will include a review by the accounting staff in the Controller's Office.

## OTHER MATTERS

### **(6) Audit Committee – Prior-Year Observation**

#### ***Observation***

We noted that the District does not have a separate Audit Committee. Currently, the Audit Committee is included in the Audit, Business, and Technology (ABT) Committee.

#### ***Recommendation***

We recommend that the District establish an Audit Committee separate from the Audit, Business, and Technology Committee. The importance of an audit committee has been recently acknowledged by the state of California by the passage of the Nonprofit Integrity Act of 2004 (the Act). While the District is not required to comply with this law, it does provide a framework that all organizations should consider.

Among other requirements, organizations covered under this law must establish an audit committee that satisfies certain standards of independence from the board of directors and the finance committee. The audit committee may include directors and nondirectors, but may not include staff (including the president/chief executive officer and the treasurer/chief financial officer). If the organization has a finance committee, the chairperson of the audit committee may not be a member of the finance committee, and 50% or more of the audit committee members must not be members of the finance committee.

These separations are important to ensure that the same individuals are not monitoring and auditing the same operations they assisted in setting and approving. The board must supervise the audit committee, but the audit committee is responsible for (i) helping the board choose an auditor, (ii) negotiating the auditor's compensation, (iii) conferring with the auditor to assure that the corporation's financial affairs are in order, and (iv) reviewing and approving the audit. We believe that a separate committee, comprised of individuals knowledgeable of financial reporting, accounting, and auditing matters, will enable the District to gain more value from the audit process.

#### ***Management Response***

The District continues to weigh the decision of whether to establish an Audit Committee separate from the Audit, Business, and Technology Committee. The Audit, Business, and Technology Committee currently embodies many of the attributes of a separate committee.

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**PAYROLL**

**(7) Record Keeping of Payroll Information – Prior-Year Observation**

*Observation*

During our testing of controls over the payroll process, certain documents including reconciliations and exception and edit reports could not be located by the District.

*Recommendation*

We recommend that documents be stored in an orderly manner with adequate physical protection against inadvertent destruction or loss.

*Management Response*

The District agrees with this recommendation. The District maintains payroll records for over 83,000 employees. Although it is difficult to guarantee 100% of the files are maintained in an orderly manner, we will review our recordkeeping procedures and provide training to staff to ensure adequate controls are in place. The District is looking at the possibilities of imaging important documents to ensure their preservation and easy retrieval.

**(8) Pay Rate Changes – Prior-Year Observation**

*Observation*

Based on discussion with the personnel commission director, we noted that when new pay rate schedules are entered into the system for classified employees, the personnel commission e-mails the information to the payroll department, and input documents are created to be keyed in by ITD into the Payroll System. The output is verified against the personnel commission data approved by Payroll and Payroll retains documentation of the input and output. However, this review is undocumented.

*Recommendation*

After the reviewer from the personnel commission has tied the information from the pay rate schedule to the system, the pay rate schedule should be documented with the reviewer's initials and date.

*Management Response*

The planned implementation of the new ERP system will provide additional approval procedures for various salary- and personnel-related issues. The payroll system will go live January 1, 2007.

**PROCUREMENT**

**(9) Vendor Database Review Process – Prior-Year Observation**

*Observation*

We noted that there is no management review over addition, maintenance, and deletion of vendor entries in the Vendor Database. Further, the IFS system is limited in the fact that it cannot search for vendors using wildcards. Without proper review of the vendor database, there is a possibility that vendor names can be

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entered twice. This can potentially result in double payments, as the system control to prevent double payments requires that PO and invoice be associated with the same vendor number in order to prompt the user for double payment.

#### ***Recommendation***

We recommend that the District implement controls to ensure that vendors are not entered twice into the database.

#### ***Management Response***

The District agrees generally with the observation for increased overview of the vendor database. At this time, the current procedures with staff review, staff actions subsequent to review, annual clean-up processes, annual review prior to issue 1099s, and reviews of the monthly state reports produce a less than 1% error rate. The implementation of the new ERP system will provide even better tools for vendor validation.

## REVENUE

### **(10) Submission of Statistical Report – Prior-Year Observation**

#### ***Observation***

During our control testing of Average Daily Attendance Reporting (ADA), we noted that some of the schools are late in the submission of the Statistical Report needed to calculate the ADA in a timely manner. The revenue limit apportionment could be understated due to incomplete data. We did note that there was an improvement in the late submission average time period compared to the prior year.

#### ***Recommendation***

We recommend that the District implement procedures to ascertain that all schools submit their statistical reports on time.

#### ***Management Response***

The statement “The revenue limit apportionment could be understated due to incomplete data” is not entirely accurate. Procedures are in place to ensure that all schools submit their statistical reports on time. The deadlines setup in the Calendar of Statistical Reports provide adequate time for review and compilation of data for the P1, P2, and Annual Report of Attendance. The ADA and corresponding revenue limit apportionments are not computed each school month but only at certain report periods prescribed by law during the fiscal year. For these report periods, staff ensure that statistical reports from schools during the report period are included in the state reports.

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### INFORMATION TECHNOLOGY

#### (11) Risk of Obsolescence of Legacy Systems – Prior Year Observation

##### *Observation*

The widespread use of computer technology over several decades has resulted in some large, complex systems that have evolved to a state where they significantly resist further modification and evolution. Large organizations such as LAUSD that have been around for decades, face a particularly troubling challenge: archaic, early generation systems must be modernized without losing important information in the process. Although current ITD applications function according to design, they lack the necessary functionality required for managers to be armed with the information required to make intelligent decisions and respond quickly. KPMG noted ITD key mission critical applications such as IFS, PTRS, HRS, and Payroll as legacy systems.

##### *Impact*

Current LAUSD ITD key applications pose considerable problems (brittleness, inflexibility, isolation, non-extensibility, lack of openness, etc.), they are also mission-critical: if one of these systems stops working the business may grind to a halt. These mission critical legacy information systems currently pose numerous and important problems. The most serious of these problems are as follows:

- These systems usually run on obsolete hardware, which is slow and expensive to maintain.
- Maintenance of software is generally expensive; tracing faults is costly and time consuming due to the lack of documentation and a general lack of understanding of the internal workings of the system.
- Integration efforts are greatly hampered by the absence of clean interfaces.
- Legacy systems are very difficult, if not impossible, to expand.

##### *Recommendation*

We recommend that the District implement steps to ensure that key payroll systems can be adequately supported in the short term. At a minimum, the District should consider the following:

- Knowledge transfer
- Documentation and training
- Retention of retiring programming staff through contractual agreements
- Recruitment of new employees to transfer of employees from other areas within ITD

In addition, the District should move forward with addressing the future requirements of replacing the current payroll systems.

##### *Management Response*

As noted above, the District has procured an ERP software package and implementation services to replace its major legacy systems, including payroll components associated with the PPS, HRS, and PTRS systems.

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These legacy systems are scheduled to be replaced by the SAP ERP system January 1, 2007. A large team of functional experts and technical experts are currently being trained to transition from legacy support to ERP support functions, and as a result have cross-trained a large group of employees and supporting consultants in the functionality of legacy systems.

### (12) Password Parameters

#### *Observation*

During our review of the password parameters, we observed the following weaknesses:

- Network is not configured to automatically lockout users after 5 invalid logon attempts. The District's standard password policy requires that the Auto-Lockout setting is configured at 5 invalid logon attempts.
- Network is not configured to automatically lockout users after 30 minutes of inactivity, as required by the District's standard password policy.
- Network is configured to force users to change their passwords every 180 days; however, the District's policy requires that users change their passwords every 120 days.
- Mainframe is configured to require password character length to be between 6 and 8 characters, whereas the District's policy requires at least 8 characters minimum.

#### *Impact*

Weak logical access controls increase the risk of unauthorized users obtaining access to applications and data, and modifying or disclosing them inappropriately. Specific implications of the security weaknesses noted include:

- No expiry of user passwords. This makes it easier for other internal users to guess another employees password, as users are only encouraged, but not forced, to change passwords;
- Lack of minimum password formats. The use of complex passwords decreases the possibility of password guessing; and
- No lockout after failed attempts. Should an unauthorized user be attempting to guess an authorized user's password, they can make unlimited guesses. Lack of lockout also means the unauthorized user may utilize password guessing software which can quickly make multiple (i.e. thousands) of guesses.

#### *Recommendation*

Logical access controls should be established commensurate with leading practices. If the password controls cannot be configured according to leading practices, due to system limitations, the password limitations should be documented. Additionally, compensating controls should be identified to help lessen the risk of inadequate password controls.

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#### ***Management Response***

Current District policy requires new systems housing confidential data conform with current District standards, which are based upon leading practices. District policy also requires that legacy systems that do not conform to current leading practices be upgraded as time and resources permit, or replaced with systems that do conform to best practice. The IFS, HRS, PTRS, and PPS systems will be replaced with the ERP system, which will document compliance with all current District security standards, and document any deviations from compliance if such deviations are required for the system to be operational. The District Microsoft Active Directory Domain (“the network” as described above) will also be reconfigured by July 1, 2007 and/or deviations from current standards will be documented.

#### **(13) IT Security Acknowledgements**

##### ***Observation***

According to the Acceptable Usage Policy, all District employees are required to acknowledge the acceptance of the policy by signing an acknowledgement form each year. During our test work, we noted that there was no evidence of a current signed employee acknowledgement for 19 of the 30 employees tested.

##### ***Impact***

Users may not be aware of the Company’s policies on information security.

##### ***Recommendation***

We recommend that management remind employees to review and approve the acknowledgement forms, as it is necessary to communicate all responsibilities for information security implementation and compliance.

##### ***Management Response***

While the District agrees that employee acknowledgement of the Acceptable Use Policy is important, the current requirement that their acknowledgement be documented in paper form does not reflect current practice. Prior to July 1, 2007, the District will modify the current Single Sign-On System to require online acknowledgement of the Acceptable Use Policy before self-initializing a District network account, and will require that the user accept the terms of the acceptable use policy each time their password is changed and/or when they log into the domain. The Acceptable Use Policy will also be modified to eliminate the requirement to maintain a paper copy of an acknowledgement form.

#### **(14) RACF Security Violation Report Reviews**

##### ***Observation***

The RACF Violation Report is generated on a daily basis; however, the report is not reviewed to help identify high-risk events.

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#### ***Impact***

The review of log files provides a means of detecting potential security violations within the system, such as access by an unauthorized user. Lack of reviewing the RACF Violation Report in a timely manner increases the risk of potential security violations going undetected.

#### ***Recommendation***

We recommend that the RACF Violation Report be reviewed on a daily basis.

#### ***Management Response***

The District agrees that the RACF Violation Reports should be reviewed on a regular basis. An automated system has been enabled as of September 2006, which emails a RACF Violation Report violation report for each major mainframe system to the Director of IT, Security. These reports are reviewed on a weekly basis by the Director of IT, Security or his/her designee, and high risk events are reviewed and investigated as appropriate. This procedure will be in effect until July 1, 2007, when the final phase of the ERP system is operational.

### **(15) Restoration Process – Prior-Year Observation**

#### ***Observation***

Based on corroborative inquiry of IT personnel, we noted that LAUSD performs backup and restoration process of financial information. LAUSD performs a periodic test over effectiveness of restoration process and quality of backup media to ensure that media that has been backed up to tapes can be fully restored. However, during our review, we noted that the test and results are not documented.

#### ***Impact***

Without the documentation of the periodic test over restoration process, it is difficult to determine if the restoration process has been performed to help lessen the risk that information cannot be restored in the event that financial information is lost.

#### ***Recommendation***

We recommend that management document the periodic testing over restoration process and quality of backup media.

#### ***Management Response***

The ITD Shared Technical Services Branch (STS) was created in 2006, and has the responsibility for backup and recovery for both the legacy and future ERP financial systems. STS responsibilities also include Database Administration (DBA), Unix Administration (OS), Application Server Administration (ASA), and the data center operations.

STS performs daily incremental backup of all LAUSD legacy systems (IFS, PTRS, HRS, PPPS) based on changes to the databases and performs weekly full backups. STS retains all incremental backups onsite. One copy of the weekly backup is also kept onsite with the second copy sent offsite to Iron Mountain.

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Onsite backups are retained for 35 days while the offsite backups are retained for 16 days before tapes are recycled.

STS performs recovery based on requests from the application support team, operations, or the DBA team. STS uses standard IBM DB2 recovery procedures to perform the recovery on the legacy financial systems. STS has performed a number of table and database level recovery using onsite backup tapes, and has never needed to recall offsite tape for any production recovery.

While a recovery from offsite tapes has not been required, the District recognizes the importance of testing its ability to recover financial systems from offsite tapes, and committed to performing a recovery in the first half of 2006. However, testing of the offsite tape recovery was delayed due to significant load on the STS staff to support the District's ERP implementation.

STS will perform offsite backup recovery test twice annually starting with the first test to occur before the end of 2006. A second test will be conducted after the final implementation phase of the ERP system, which is scheduled for production in July 2007. The first test will recover one or more legacy test databases and a single instance of SAP. The second test will be performed on a SAP instance to be determined by BTS team by the end of third quarter 2007.

To assure completion of testing according to this timetable, the Director of the STS Branch has implemented a documented, weekly review of "open action items", which was created from an Action Item Database. STS has created two Action Items for the above mentioned tests. An open action item report has been printed and delivered to ITD Security. After the completion of each test, STS will print the open action item report and the closed action item report along with test documentation and will deliver it to ITD Security department.

#### **(16) HRS Position Control Component – Prior-Year Observation**

##### ***Observation***

The Position Control Component, which was implemented in the HRS system, is a mechanism by which employee-position assignment is controlled. The Position Control Component prevents positions from being fulfilled in the HRS system, until approved by the Budget department. KPMG notes that the Position Control Component only applies to full time, certificated, and classified positions. There is no position control over substitute and part-time positions. Therefore, there are no controls to prevent a substitute or part-time position from being filled, if the Budget department did not approve of the position.

##### ***Impact***

Failure to properly control the assignment of nonapproved positions within the HRS system increases the risk of payroll fraud through the creation and processing of payroll for fictitious employees.



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***Recommendation***

We recommend that management consider applying the Position Control Component to all positions, including substitute/part-time positions.

***Management Response***

The District agrees with the observation and the impact. In the upcoming implementation of SAP Human Resources and Payroll, some changes in the current processes are anticipated which will provide greater position control over most part-time positions and much better visibility into the use of these resources. For substitutes, however, the District finds that the need to have classroom substitutes in place on demand to ensure the continuity of the instructional program precludes effective use of position control in the new ERP system.

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Status of Prior Year Findings and Recommendations

Fiscal Year Ended June 30, 2006

**FINDINGS RELATING TO FINANCIAL REPORTING**

**(1) Finding FS-05-01 – Lack of System Integration**

**Finding FS-04-01 – Lack of System Integration**

*Condition*

The District's business critical applications such as Facilities Information System (IFS), PPPS (Payroll), Human Resource System (HRS), Payroll Time Reporting System (PTRS), and Student Information System (SIS) currently operate in silos. The key payroll applications (PPPS, HRS, and PTRS) reside on different mainframe-based systems, requiring integration through various interfacing methods. The HRS, PTRS, and IFS systems are all housed on the same IBM mainframe unit, while the PPPS system is housed independently on a separate IBM mainframe unit.

*Recommendation*

Introduce an ERP (Enterprise Resource Planning) software solution to integrate key District applications. An ERP would help increase the efficiency in managing all the human and physical resources used for the District's business activities. Furthermore, ERPs would help provide integrated and real-time management of all the business data.

*Current Status*

Partially implemented.

*District Explanation if Not Implemented*

The District is in the middle of a three phase implementation of an ERP system that will replace many of the legacy systems identified in the audit finding. Specifically, the General Ledger, Budget, Payroll, Time-Reporting, and Procurement systems of the District are being replaced. Phase 1 of the project, encompassing finance functionality was implemented effective July 1, 2006.

**(2) Finding FS-05-02 – Application Security Configuration**

**FS-04-02 – Application Security Configuration**

*Condition*

Based on our limited review of application security at the District, we noted the following security weaknesses:

- One user with inappropriate access to migrate changes into the production libraries within IFS /HRS.
- Ten users with inappropriate access to migrate changes into the production libraries within PTRS utilizing Endeavor application.
- One user with inappropriate access modify interface file between BRASS and IFS system.
- One user has inappropriate access modify job schedules.

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- Four (4) users (SJL5810, LFM9302, JSSMT, and GYL0522) with inappropriate access to update the Grant Revenue Table (GRDT).
- 46 users with inappropriate access to update the Revenue Resource (RSRC) table.
- 28 users with inappropriate access to the Programs (PROG) table.
- 64 users with inappropriate access to update the Purchasing Authority Delegation (PADU) table.
- Three (3) users (EFC2706, HRSEGA, and SJD8689) with inappropriate access to change/approve the payroll employee master file.
- Two (2) users (MAS3680 and MLR0886) with the ACCTPAY6 profile when they should be assigned the ACCTPAY3 profile.
- The Food Service Application does not provide logical security to govern system functionality. All user accounts for the application carry the same authorization privileges and, as a result, all associated employees have read/write access on the application and the potential to make changes to the application source code. 23 users with inappropriate access to Food Service Application. In addition, two (2) user id's (FSTPXH and FSTDXT) that the District is unable to determine the individual associated with account.
- Five (5) users (MPTOXG, MPTPXB, MPTRCD, MPTAPS and MPTEII) with inappropriate access to modify the ACES application source code.
- User passwords are not encrypted on the ACES application. Individuals with the proper authority can view user accounts and corresponding passwords and potentially access the ACES system under an unauthorized profile.
- Five (5) users with inappropriate access to modify the SSIS application source code.
- 23 users with inappropriate access to modify the Early Education Student Information System (EESIS) application source code. However, access was revoked for all 23 individuals on June 27, 2005.
- One user, has left the accounting department as of September 3, 2004 and should not have an active id on IFS with the ability to modify the GRDT table. The GRDT table provides access to the Indirect Cost Rate used to calculate the overhead reimbursement amounts applied to state and federal expenditures.
- KPMG was unable to verify the appropriateness of the access related to Financial Integrated Reporting System (FIRS). The application is administrated by the Facilities Information Systems (IFS) group and not ITD. IFS failed to provide the access verification as requested.

Lack of proper security can potentially expose the District to an increased risk of unauthorized access to transactions and data in the IFS and Human Resource System, and such systems impacting financial reporting in the absence of effective controls over assigning access to users.

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#### ***Recommendation***

We recommend that management create a role-based access matrix, which should list, at a minimum, the transactions that should not be grouped together and profiles that should not be assigned together that would result in a segregation of duties conflict. This matrix should be reviewed during the maintenance/creation of profiles and during the assignment of user access.

A detailed review should be performed over the validity of all users and their access to the various District systems (IFS, HRS, PTRS, PPPS, ACES, ESIS, SSIS, and Food Service). This review should be conducted to ensure that only appropriate users have access to the systems and their access is in line with their job responsibilities. In addition, users' access should be reviewed against the access matrix to ensure that user access is in compliance with the District's segregation of duty policies. Compensating controls will be required in situations where users may have segregation of duty conflicts, but are required to have the access to perform their jobs. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to the IFS HRS systems, and such systems impacting financial reporting.

#### ***Current Status***

Implemented.

#### **(3) Finding FS-05-03 – HRS/Payroll System Interface Controls**

#### **Finding FS-04-03 – HRS/Payroll System Interface Controls**

#### ***Condition***

During our test work of IT controls within the HR/Payroll process, we identified a lack of system controls to ensure the completeness of data being transferred from one system to another. This lack of proper interface controls is due largely to the fact that some of the system interfaces consist of a manual tape download/upload and there are no processes in place to monitor the completeness of transmission. During our test work over the system interfaces within the HR/Payroll process, we noted the following:

The interface from HRS to PPPS lacks adequate controls to make certain all records have been processed completely. No identifiable controls for record completeness exists.

The interface from PTRS to IFS lacks adequate controls to make certain all records have been processed completely. No identifiable controls for record completeness exists.

Due to functional limitations and the numerous interfaces that exist between key business applications, compensating manual processes have been developed to support each of the key payroll business processing.

As a result of the current ITD payroll processing IT architecture, payroll processing is currently a labor intensive process, supported not only by the various time reporting location reports and administrators, but also by the Payroll Services Branch, ITD programmers, ITD Data Processing, ITD Training Section, Personnel and Health Insurance Services divisions. Manual intervention at key points in the payroll issuance process is not only inefficient, but also increases the risk of human error and inefficiencies,

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### Status of Prior Year Findings and Recommendations

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potentially resulting in late or incorrect payroll payments, interest penalty charges, and legal, union, political or other exposures.

#### ***Recommendation***

We recommend that the District consider replacing their payroll systems and processes with an integrated payroll/human resources/benefits system. The District's approach should include the following steps:

- Conduct a benchmarking study to discover "best practices" among similarly structured organizations. The District should first analyze the reasons underlying the complexities of the current payroll business processes (e.g., union agreements, multi-track school years) and perform baseline business process reengineering, where necessary;
- Evaluate various payroll system options, including internal system implementation (client/server or mainframe), application service provider arrangement and partial or full outsourcing arrangements for each of the payroll applications and select a solution;
- Perform formal needs analysis / functional requirements for the proposed solution;
- Develop a migration plan, that would include project development, project management, and change management programs; and
- Reengineer business processes to support the selected solution using employee self service models to automate workflow and minimize human interaction as well as process inefficiencies;
- Implement the solution.

#### ***Current Status***

Partially implemented.

#### ***District Explanation if Not Implemented***

The District has procured an ERP software package and implementation services to replace its major legacy systems, including payroll, time-reporting, and human resources. As an integrated system, there will be limited interfaces involved in these processes in the future. To the extent there is any data interfaced from or to non-ERP systems, appropriate interface controls have and/or will be put in place including control totals, record counts, and reconciliation procedures. The HR/Payroll/Time components of the ERP solution are scheduled for implementation, January 1, 2007.

#### **(4) Finding FS-05-04 – Lack of System Access Segregation of Duties**

##### **Finding FS-04-04 – Lack of System Access Segregation of Duties**

#### ***Condition***

##### **HRS**

We determined the existence of access is not segregated for IFS senior programmers. It is apparent RACF security has been setup to include a single profile for senior programmers to make programmatic changes to IFS. The issue is that senior programmers from other applications such as HRS, PTRS, and the like, are

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also assigned this same profile; thus having the ability to access IFS code. Simply stated, any senior programmer with the application global profile would have access to all applications.

We have also identified a lack of segregation of duties between changing and approving changes to employee assignments. Based on our review of application security within the HRS system, we identified the existence of two levels of security over creating an assignment transaction within the HRS system. An assignment identifies and instructs how an employee is to be paid. Individuals assigned with the PERTECH profile have the right to create assignments for an employee. Individuals assigned with the PERAUDT profile have the right to approve an assignment created by the PERTECH user. Individuals assigned with the PERBOTH profile have the ability to create and approve an assignment. Hence, one individual would have the right and privilege to approve their own work. Although this profile is reserved for only supervisory and management level personnel, it violates the control of segregation of duties between changing and approving changes to the employee payroll master data.

#### **BRASS**

KPMG determined that system administration of the BRASS system is performed by Budget Branch personnel. Users with access to create, modify, and delete user accounts also perform interface process from BRASS to IFS system. In addition, such users resolve errors that are flagged by the system as part of the interface process. We identified a lack of segregation of duties exists between system administration and budgeting functions within the BRASS system. KPMG could not determine at this time if the BRASS system has the capability to segregate such access; however, lack of segregation of duties exists.

#### *Recommendation*

#### **HRS**

We recommend that management consider segregating the access levels of IFS, HRS, and PTRS programmers. Additionally, management should segregate the duties of modifying assignment transactions and approving the modification of assignment transactions.

#### **BRASS**

We recommend that management investigate system administrative and budgeting functions to segregate access level within the BRASS system.

#### *Current Status*

Implemented.

#### **(5) Finding FS-05-05 – Lack of Grant and Accounts Receivable Aging Report or Analysis for Allowance for Uncollectible Receivables**

#### *Condition*

As of June 30, 2005, the District had \$685 million in accounts and grants receivable. However, an accounts receivable aging report (Aging Report) is not prepared for the District as a whole and the current detail receivable file, which is used as an aging report, has been determined by management to be inaccurate and incomplete.

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An Aging Report provides important management information to monitor the collection of grants and accounts receivable or indicate if a significant error exists at any given point in time. The Aging Report can reveal patterns of delinquency and show where collection efforts should be concentrated. The longer receivables are left unpaid, the more likely they become uncollectible. Aging evaluations can help prevent losses, since old receivables may result in bad debts to the District.

Because of the lack of an accurate and complete Aging Report, the District has not been able to assess if some of the grants and accounts receivable have been outstanding for a long period of time. Such information is critical in assessing the adequacy of an allowance for uncollectible grants and accounts receivable to ensure that revenues and receivables are fairly and accurately presented in the financial statements.

#### ***Recommendation***

We recommend that an Aging Report be prepared and reviewed by the District on a regular basis and reconciled to the general ledger. The implementation of these procedures would effect a more accurate statement of District revenues and, in addition, provide better control over potential problem receivables.

#### ***Current Status***

Implemented.

### FINDINGS RELATING TO FEDERAL AWARDS

#### **(6) Finding F-05-01 – Allowable Costs – Missing Payroll Certifications and Documentation for Specially Funded Employee Positions**

##### ***Condition***

**NCLB Title I, Part A:** During our procedures over the allowable payroll costs, we noted the following exceptions:

For 4 out of the 30 employees sampled, the District was unable to provide the principal's certification of the school's payroll for the pay periods which were charged to the federally funded program.

For salaries charged, 15 of the 20 employees working on a targeted assistance program were not supported by either a multifunded time report or a semiannual payroll certification as required by the federal and state regulations. During our audit fieldwork, one of the schools prepared documentation to support 5 of those 15 unsupported salaries. Total program salary and benefit expenditures for the year amounted to \$255,823,101.

**Innovative Education Program Strategies:** During our procedures performed over payroll costs of the program, we noted 7 of 30 employees sampled working on targeted assistance programs were not supported by either multifunded time reports or a semiannual certification as required by federal and state regulations. Of the 7, 2 did not work at the school where their salary was charged per discussions with the school principals and may be charged to the incorrect program code. We further noted the District was unable to provide supporting documentation for an additional 9 of the 30 employees selected for sampling. Total program salary and benefit expenditures for the year amounted to \$29,993,572.

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**Beyond the Bell:** During our procedures over the allowable payroll costs, we noted:

The District was unable to locate timesheet supporting documentation for 1 of the 40 employees sampled that was charged to the program, which resulted in \$320 of unsupported costs.

The District was unable to provide support for program salaries charged by either a multifunded time report or a semiannual payroll certification as required by OMB Circular A-87 regulations for all employees sampled.

Total program salary and benefit expenditures for the year amounted to \$4,059,084.

**Smaller Learning Communities:** In 6 of our 30 employees sampled, the District was unable to provide the principal's certification of the school's payroll for the pay periods which were charged to the federally funded program. These certifications are a required element of the District's internal controls over payroll processing. Total program salary and benefit expenditures for the year amounted to \$3,193,672.

**Safe and Drug-Free Schools:** In 8 of our 30 employees sampled, the District was unable to provide the principal's certification of the school's payroll for the pay periods which were charged to the federally funded program. We also noted the District was unable to provide supporting documentation for 3 salary adjustments included in the 30 employees sampled. Total program salary and benefit expenditures for the year amounted to \$2,987,183.

**CD Perkins – Vocational & Technical Education:** During our procedures over the allowable payroll costs, we noted the following exceptions:

Of the 30 employees sampled, the District was unable to provide the principal's certification of the school's payroll for the pay periods which were charged to the federally funded program for 4 employees.

Salaries charged for both sampled employees working on a targeted assistance program were not supported by either a multifunded time report or a semiannual payroll certification as required by the federal and state regulations.

Total program salary and benefit expenditures for year amounted to \$5,415,545.

**Child Nutrition School Programs:** During our procedures over the allowable payroll costs, we noted:

In our sample of 30 employees, the District was unable to provide support for program purpose as a direct program cost for 4 employees, with position titles of PERS Clerk and Internal Auditor.

The District was unable to provide support for program salaries charged by either a multifunded time report or a semiannual payroll certification as required by OMB Circular A-87 regulations for 30 employees sampled.

Total program salary and benefit expenditures for the year amounted to \$126,658,508.



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***Recommendation***

We recommend that the District strengthen its controls over its time and effort documentation to ensure that it meets the compensation for personal services standards contained in OMB Circular A-87.

***Current Status***

Partially implemented.

***District Explanation If Not Implemented***

The District will review BUL-888 and add information on when required certification is due. The District is in the process of developing a "Program Guide" that outlines applicable regulations and codes for each major categorical program. Prior year findings and the corrective actions are also included in the guide to emphasize areas that need special attention on compliance.

**(7) Finding F-05-02 – Allowable Costs – Missing Documentation to Support Program Expenditures**

***Condition***

During our procedures over nonpayroll costs, we noted the District was unable to provide supporting documentation for 2 of the 32 expenditures sampled that were charged to the program.

***Recommendation***

We recommend that the District strengthen controls over document retention to ensure that documentation to support expenditures charged to a federally funded program is retained in accordance with regulations.

***Current Status***

Partially Implemented.

***District Explanation if Not Implemented***

The District is currently in the process of obtaining additional off-site storage to house our documents to facilitate retrieval. Within the next few months, Food Services will be relocating invoices, applications, and other documents pertaining to Food Services in the storage facility and access will be available between 9:30 a.m. and 6:30 p.m., 7 days a week for document retrieval.

**(8) Finding F-05-03 – Allowable Costs – Program Manager Review of Program Expenditures**

***Condition***

During our discussions with program management regarding monitoring controls over program expenditures, we noted the following deficiencies in the design of those internal controls:

The payroll expenditures charged to the program are recorded in summary form each month with no detail of those expenditures accessible to the program manager to perform any detailed reviews, as needed.

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The program manager does not have access to review the detail of the nonpayroll expenditures that are charged to the program each month. Since the program managers are the most knowledgeable regarding allowable program expenditures per the terms of grant program and OMB Circular A-87, their reviews would appear to be the most effective to ensure that only allowable program expenditures are charged to the program.

#### ***Recommendation***

We recommend that the District strengthen its controls over monitoring of program expenditures to include access to detailed program expenditure information to appropriate program officials, including the program manager, to help ensure that only appropriate salaries and allowable expenditures are charged to the federally funded program.

#### ***Current Status***

Implemented.

#### **(9) Finding F-05-04 – Allowable Costs/Cash Management – Controls over Payments to Subrecipients for Reimbursement of Expenditures & Other Vendors**

#### ***Condition***

During our discussions with program management for monitoring controls over payments made to subrecipients, we noted that the District's policy is to have the program assistant reconcile the subrecipients attendance records to the billing requests to ensure the accuracy of the billing amounts before payments are made. The approval of these reconciliations should be evidenced by the initials of the program assistant. In our sample of 46 billing requests, we noted 4 were missing the initials of the program assistant as evidence of this reconciliation control. We also noted in the same sample of 46 billing requests 1 billing where the approval signature was signed by the contractor instead of District personnel. We further noted in our sample of 4 nonsubrecipient expenditures that 1 did not contain an approval signature.

#### ***Recommendation***

We recommend that the District stress the importance of maintaining strong internal controls over payments made to subrecipients to program personnel to help ensure that overpayments are not made and charged to the federally funded program.

#### ***Current Status***

Implemented

#### **(10) Finding F-05-05 – Allowable Costs – Classification of Indirect Program Expenditure as Direct**

#### ***Condition***

In our sample of 30 nonpayroll expenditures, we noted one acquisition of computer equipment/supplies for the information technology department at the District Central Office. This expenditure would appear to be more appropriately classified as general purpose equipment and should be included with the District's indirect costs.

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***Recommendation***

We recommend that the District provide additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they have adequate knowledge of OMB Circular A-87.

***Current Status***

Partially implemented

***District Explanation if Not Implemented***

The District will implement additional controls to prevent inappropriate expenditures.

**(11) Finding F-05-06 – Allowable Costs – Compliance with State of California Funding Terms and Conditions for Child Development Program**

***Condition***

During our procedures performed over enrollment activity of the program, we noted 24 of 25 students sampled where enrollment hours claimed did not agree to the sign-in sheets. In our sample of 25 students for one month of attendance days claimed (approximately 500 days), we also noted 3 days where the sign-in/out sheets were not signed and 46 days where the time in/out for the students was not indicated on the sign-in/out sheet.

***Recommendation***

We recommend that the District use daily sign-in/out sheets as the source documents for reimbursement purposes.

***Current Status***

Partially implemented

***District Explanation if Not Implemented***

The District has implemented a new Early Education Student Information System (EESIS) which assists in monitoring attendance. Site administrators have been instructed to maintain sign in/out sheets in relation to the parent contract and appropriate actions that are required.

**(12) Finding F-05-07 – Allowable Costs – Grant Awarded to Separate Legal Entity**

***Condition***

Based on our reading of a grant award notification to Los Angeles Better Educated Students for Tomorrow (LA's Best), a separate legal entity with its own financial statement audit and A-133 single audit report, we noted, the District expended grant funds awarded to LA's Best without an executed subgrant agreement and reported the expenditures on the schedule of expenditures as direct funding and not passed through LA's Best.

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***Recommendation***

We recommend that the District formalize and separate its various partnership programs with LA's Best to ensure that all grants and program expenditures are paid for and reported under the correct legal entity.

***Current Status***

Implemented.

**(13) Finding F-05-08 – Allowable Costs – Eligible Project Costs Computed Incorrectly**

***Condition***

During our procedures performed over the partial reimbursement claim made, we noted the claim submitted included encumbrances that were double counted for 5 of the 12 schools that included encumbrances in the claim reimbursements. The overclaimed amount was \$17,302.

***Recommendation***

We recommend that the District strengthen its controls over claims to funding agencies to ensure that claims for reimbursement are calculated correctly.

***Current Status***

Implemented.

**(14) Finding F-05-09 – Allowable Costs – FEMA OIG Audit Finding**

***Condition***

The District received notification from the FEMA Office of Inspector General (OIG) and the General Counsel regarding an audit conducted of the FEMA Grant Acceleration Program (GAP), a pilot program created in 1997 to expedite the closure of the 1994 Northridge earthquake disaster projects, with its report issued in February 2003. This report and notification from the OIG indicated that based upon projects sampled in their program audit that they would be disallowing 24 District improved projects that received FEMA funding in excess of the maximum amount permitted under the "improved project" regulations which totaled \$11,410,568. During the fiscal year ended June 30, 2005, the District has accrued \$10,636,852 for this liability to FEMA and has reclassified \$7,172,577 of disallowed project expenditures from the Public Assistance program and \$3,464,275 from the Hazard Mitigation program against various state bond programs. We were unable to assess the appropriateness or allowability of these transfers.

***Recommendation***

We recommend that the District continue to work with the FEMA General Counsel to resolve this issue and repay any questioned costs as required.

***Current Status***

Partially implemented.

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***District Explanation if Not Implemented***

The District continues to believe that the cost transfers to the state bond funds were appropriate. The District is preparing final closeout plans which will be coordinated with FEMA.

**(15) Finding F-05-10 – Cash Management – Interest Income from Advances not Returned to Federal Government**

**Finding F-04-01 – Cash Management – Interest Income from Advances not Returned to Federal Government**

**Finding F-02-04 – Compliance with Federal Cash Management Requirements**

**Finding F-01-04, F-00-3, and F-99-2 – Interest Earned on Federal Program**

***Condition***

During our procedures performed over Cash Management, we noted that interest income was earned from various federal program cash advances. Excess interest was not remitted to the federal government for the following programs:

In addition, based on our reading of District internal correspondence on interest calculations, we noted that the District's policy is to estimate interest owed to the District from the federal government when the District uses its own funds for the program expenditures and is subsequently reimbursed. The District then nets that estimated interest due from the federal government against interest liabilities owed to the federal government on federal program cash advances. The netting of the perceived interest due to the District will understate the true interest liability to the federal government.

***Recommendation***

We recommend that the District comply with federal Cash Management requirements or obtain positive confirmation of the waiver of the requirements from its various federal funding agencies. We further recommend that the District review its current policy for the calculation of interest due to the federal government to eliminate the recording of interest due from the federal government and the subsequent netting with amounts earned on federal advances.

***Current Status***

Partially implemented.

***District Explanation If Not Implemented***

The District has contacted the United States Department of Education and has had informal discussions regarding the use of interest income from federal programs. A decision will be made this Fall whether to submit a plan for the use of the interest income or to return the funds.

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**(16) Finding F-05-11 – Davis-Bacon – Prevailing Wage Rate Exceptions**

*Condition*

In our sample of 30 employees paid by construction contractors applicable to prevailing wage rate regulations for the program, we noted 1 employee who was paid less than the prevailing wage base rate and another 14 employees where we were able to determine that a satisfactory base rate was paid but were unable to determine if a proper rate for fringe benefits were paid due to lack of information provided on the certified payroll information sent by the construction contractor to the District. Of the 7 different construction contractors sampled, all 14 fringe benefit exceptions noted were 100% of the sampled employees from 3 of the contractors.

*Recommendation*

We recommend that the District ensure that certified payroll records meet the minimum standards and any deficiencies be communicated to those contractors to be rectified and corrected for future payroll submissions.

*Current Status*

Implemented.

**(17) Finding F-05-12 – Eligibility – Errors in Annual Eligibility Determination**

**Finding F-04-05 – Eligibility – Noncompliant Student Applications Accepted for Free, Reduced and Full-price Students**

*Condition*

During our procedures performed over the annual eligibility survey for free and reduced price meals:

In tracing the annual eligibility summary data (October participant survey) to source documentation (eligibility participation summary report), we noted 3 of the 50 schools sampled contained errors which resulted in the overcounting of free participants by 73, reduced price participants by 22, and paying participants by 12.

In reviewing the mathematical accuracy of the summary data sheets used to compile the individual student applications into annual eligibility determination (October participant survey), we noted mathematical errors for 12 of the 50 schools sampled. The total students enrolled in those 50 schools were 6,229. The errors amounted to undercounting of free participants by 24, reduced price by 1, and paying participants by 13. The errors for overcounting amounted to free participants by 4, reduced price by 4, and paying participants by 12.

*Recommendation*

We recommend that the District strengthen controls over the annual eligibility determination counting process to ensure that student participation categories are being counted and reported to the CDE, since these annual determinations will have an impact on the claims filed for the entire year.

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#### *Current Status*

Partially implemented.

#### *District Explanation if Not Implemented*

A new computer generated attendance roster has been implemented since September 2005. This new report format provides a more accurate eligibility and participation information and has minimized errors.

#### **(18) Finding F-05-13 – Eligibility – Controls over Consolidation Application (CONAPP) Ranking of Schools by Percent Low Income**

##### *Condition*

During our procedures performed over the review of the District's procedures in determining student poverty count rankings, we noted that the District utilizes two different methods for determining the unduplicated poverty counts of students. For Provision 2 schools under the National School Lunch program, the schools perform the eligibility determination for free and reduced price meals for students every four years, and utilize the school free and reduced meal rate only. For non-Provision 2 schools, eligibility of free and reduced price meals are determined each year, and the District uses a composite of students eligible for free and reduced price lunches under the National School Lunch Act and the number of children receiving assistance under the Temporary Assistance for Needy Families (TANF) programs.

In our sample of 5 schools designated as Provision 2 schools, the use of the free and reduced meal rate only as opposed to the composite method resulted in 2 of the 5 schools with percentages 11 and 15 basis points below the composite method and 3 schools 13, 17, and 54 basis points above the composite method.

In our sample of 12 non-Provision 2 schools, our reperformance of the ranking calculations using the District's same composite method resulted in 5 schools with variances more than 1 basis point with one school's difference as high as 9 basis points.

We noted that these ranking calculations are compiled by an administrator of the program without a detail review being performed over the calculations.

##### *Recommendation*

We recommend that the District strengthen controls by segregating the compilation of these ranking percentages to have the calculations performed by an assistant with the detailed review performed by the administrator to reduce the risk of errors in the calculations. We also recommend that the District review its methodology for the use of only the free and reduced meal counts for the Provision 2 schools. As the student counts are not done each year, there could be an increase in the number of eligible students which may not be accounted for in the ranking and fund allocations in between the four-year eligibility cycles.

##### *Current Status*

Implemented.

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**(19) Finding F-05-14 – Equipment – Equipment Management Policies**

***Condition***

In our sample of 25 current year equipment acquisitions for the program, we noted 3 that were over the federal acquisition threshold of \$5,000. We noted 2 of the 3 equipment acquisitions, both for \$5,772 that were not adequately tagged in accordance with the District equipment tagging policy. We were able to trace the equipment serial numbers to the copies of the invoices to verify that the equipment did exist but the property tags should contain additional information as to a District identification number which can be reconciled to central District equipment records that should contain: the property description, source of funding, acquisition date, original acquisition cost, and percentage of matching participation.

Per our discussion with the two schools which acquired the three pieces of equipment over the federal equipment threshold, the school principals were not aware of the District's policy over the Control of Site Equipment, issued May 10, 2005 (BUL-953), which requires them to perform an annual inventory and maintain a permanent inventory of equipment with an original acquisition value over \$500. Therefore, they were unable to produce any equipment inventories performed at their school sites over the past two years. These missing equipment inventories were not noted by or followed up by the District office of the controller which is responsible for receiving and reconciling the equipment records.

The District also increased its equipment capitalization threshold effective July 1, 2004 for items to qualify as capital in the general ledger from \$15,000 up to \$25,000. Without strong equipment inventory controls, the increase of the capitalization threshold to \$25,000 for financial reporting purposes increases the risk that equipment between \$5,000 and \$24,999 will not be tracked, reconciled, and maintained in accordance with federal compliance guidelines. If the threshold for tracking federal equipment was the same or greater than the threshold for tracking District equipment for financial reporting purposes, it would reduce the risk of not accounting for the equipment each year and would then require it to be reconciled to the financial reporting records.

***Recommendation***

We recommend the following:

- (a) The District issue a reminder bulletin to its schools regarding the importance of its physical equipment tagging and equipment inventory policy.
- (b) The District review the current policies and procedures and consider implementing a more automated system of accounting for equipment inventory with some sort of software program which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. These detailed equipment records should be used both by the District to reconcile its equipment recorded in the general ledger for financial reporting purposes and at the schools to support the accuracy and completeness of the school classroom inventory equipment inventory counts.
- (c) Since a significant portion of the equipment acquired by the District is funded by specially funded federal programs, we recommend that the District consider reducing its equipment capitalization policy down to the current federal level of \$5,000 to reduce the risk that federally funded equipment will not be adequately tracked, reconciled, and maintained for federal compliance purposes.



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- (d) The District strengthen its internal control policies and procedures to prevent loss or misappropriation of assets by developing some sort of sampling of the existence of its equipment:
  - (1) selecting a sample of equipment acquired during the year and tracing it to the physical equipment at the school site, and
  - (2) selecting a sample of equipment acquired in a previous year but still maintained in the permanent inventory records and tracing it to the physical equipment at the school site.

***Current Status***

Not implemented.

***District Explanation if Not Implemented***

The District is currently implementing a new ERP system, SAP which is being modified to track all equipment on federal contracts over \$5,000. The asset tracking portion of SAP is set to go live July 1, 2007. The District will update its procedures to include disposition of assets from federally funded programs. The District will continue to conduct training meetings regarding equipment policies and procedures to ensure proper documentation of equipment purchases and disposals.

**(20) Finding F-05-15 – Equipment – Program Equipment Disposals**

***Condition***

Due to the current structure and decentralization of the District’s current equipment inventory system, it was unable to provide a listing of equipment disposed of during the fiscal year that was acquired under the grant program. Therefore, we were unable to determine if any equipment disposals were subject to federal disposition compliance requirements.

***Recommendation***

We recommend that the District review the current equipment inventory and disposal policies and procedures and consider implementing a more automated system of accounting for equipment inventory.

The District should also issue an update to its control of site equipment policy to include additional language regarding equipment dispositions with an estimated fair market value of \$5,000 or more and create a notification/approval form to be sent from the schools to specially funded programs group at the District office for review and discussion with grant program personnel for possible communication with the program awarding agency for proceeds received or authorization to transfer equipment to a nonfederally funded program, as applicable.

***Current Status***

Not implemented.

***District Explanation if Not Implemented***

The District is currently implementing a new ERP system, SAP which is being modified to track all equipment on federal contracts over \$5,000. The asset tracking portion of SAP is set to go live July 1,

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2007. The District will update its procedures to include disposition of assets from federally funded programs. The District will continue to conduct training meetings regarding equipment policies and procedures to ensure proper documentation of equipment purchases and disposals.

**(21) Finding F-05-16 – Matching, Level of Effort, Earmarking, and Reporting – No Support for District Matching Funds Reported**

***Condition***

The District was unable to provide supporting documentation for the non-Federal funds (match/cost share) of \$800,000 that was reported for the reporting period from October 1, 2003 through December 31, 2004 to demonstrate that the funds were expended for the program purposes, and were not included as expenditures or contributions in another federally funded program.

***Recommendation***

We recommend that the District develop procedures to capture District matching cost share expenditures and to report those actual matched amounts on the grant performance reports to the awarding agency. The supporting documentation for these matching contributions should be retained as required under OMB Circular A-133.

***Current Status***

Not implemented.

***District Explanation if Not Implemented***

The District will review its procedures and ensure that all required documentation is retained and retrievable in a timely manner. We will conduct training with schools in question to identify specifics of matching funds and documentation needed.

**(22) Finding F-05-17 – Matching, Level of Effort, and Earmarking – Administrative Costs over the Restricted 2% Limit**

***Condition***

During our procedures performed, we noted that the District had no controls in place to ensure that no more than 2% of the total award allocation was expended on administrative costs. The total program expenditures for the year were \$6,934,314 and 2% of those expenditures would amount to \$138,686, but the District had charged \$166,636 of administrative expenditures to the program.

***Recommendation***

We recommend that the District strengthen its controls over the budgeting of the administrative costs charged to ensure that administrative costs are not charged over the allowable maximum.

***Current Status***

Disagree.

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#### *District explanation if not implemented*

The District believes that the administrative costs were accurately charged to the program. The federal program guidelines allow us to charge an indirect cost rate as approved by the State in addition to the administrative cost of up to 2%. The indirect cost rate allowed in the State's SACS Query web site in the LEA allowable rate is 4.4% for 2004-2005.

#### **(23) Finding F-05-18 – Matching, Level of Effort, and Earmarking – Transferred over the Maximum Limit Under Transferability Provisions**

##### *Condition*

The District has been identified for improvement by the State of California Department of Education. During our procedures performed, we noted that the District had made transfers under the transferability of fund provisions, in excess of the maximum limits for programs identified as both major and nonmajor.

##### *Recommendation*

We recommend that the District strengthen its review process over the consolidated application submitted to the State to ensure that any transferability adjustments are in accordance with federal guidelines.

##### *Current Status*

Implemented.

#### **(24) Finding F-05-19 – Period of Availability – Expenses not Claimed in Proper Period**

##### *Condition*

**CD Perkins – Vocational & Technical Education:** In our sample of 25 expenditures, we noted 5 expenditures totaling \$28,971 of goods or services that were received between February and June 2005 but recorded in July 2005.

**Safe and Drug-Free Schools:** In our sample of 25 expenditures, we noted 2 that were not incurred during the grant period from July 1, 2004 through June 30, 2005. One expenditure for \$18,320 was for services provided from April 1, 2004 to April 26, 2004 and the other expenditure for \$10,550 is for services to be provided from October 13, 2005 to December 12, 2005.

**Innovative Education Program Strategies:** In a sample of 30 expenditures tested to ensure funds were obligated during the proper period of availability, we noted 1 of the 30 was not incurred during the proper period of availability. In this instance, the books purchased were received by the District on June 13, 2002 and the expenditure was made on February 14, 2005. Accordingly, the appropriation initially became available on July 1, 2001 and should have been obligated by the District before September 30, 2003.

**Reading First:** In conjunction with our financial statement audit, we noted multiple book purchases that were received by the District in August and September 2005 but were claimed as expenditures in the grant period ended June 30, 2005. These expenditures should be claimed in the grant period from July 1, 2005 through June 30, 2006

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#### *Recommendation*

We recommend that the District strengthen its controls to ensure that all incurred expenses are obligated and charged to funding agencies in the proper period of availability.

#### *Current Status*

Partially implemented.

#### *District Explanation if Not Implemented*

The District is currently implementing a new ERP system. The Grants module will be implemented July 1, 2007. This system will improve the District's ability to tract grants.

#### (25) **Finding F-05-20 – Procurement, Suspension, and Debarment- No Suspension or Debarment Certification on File for Contract over \$25,000**

##### *Condition*

**Child Nutrition Child Care Food Program:** In our sample of 25 expenditures, we noted 2 expenditures totaling \$1,082,000 from two vendors where the District did not obtain a complete nonsuspension or debarment certification or verify the contractor's status on the Excluded Parties List System (EPLS).

**Child Nutrition School Programs:** In our sample of 50 procurement contracts, we noted 2 of those contracts did not contain certifications of nonsuspension and debarment per the District policy. The District did utilize the federal EPLS to verify that one of the service providers was not suspended or debarred.

**Urban Systemic Initiative:** In our sample of 25 expenditures, we noted 2 expenditures totaling \$231,279 from the same contracted vendor where the District did not obtain a nonsuspension or debarment certification or verify the contractor's status on the EPLS.

**NCLB Title I, Part A:** In our sample of 30 procurement contracts, we noted 22 of those contracts were with supplemental service providers for after-school program services. The District does not require these types of service providers to sign suspension and debarment certifications since they are designated by the California Department of Education (CDE) as approved to provide these types of services even though the contracting for those services is performed by the District. The CDE has not provided any assurances to the District that it has obtained certifications of suspension and debarment from these providers. Since the suspension and debarment certifications are part of the contracting process, the certifications would normally be obtained by the contracting (at risk) party.

The District also did not utilize the federal EPLS system to verify that these service providers were not suspended or debarred.

**CD Perkins – Vocational & Technical Education:** In our sample of 25 contract expenditures, we noted 1 contract for \$47,534 where the District did not obtain a nonsuspension or debarment certification or verify the contractor's status on the EPLS.

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**Beyond the Bell:** In our sample of 25 procurement contracts, we noted 21 of those contracts did not contain certifications of nonsuspension and debarment. The District also did not utilize the Federal EPLS system to verify that these service providers were not suspended or debarred.

**Child Care Center:** In our sample of 25 expenditures, we noted 2 expenditures totaling \$76,520 from the same contracted vendor where the District did not obtain a nonsuspension or debarment certification or verify the contractor's status on the EPLS.

#### *Recommendation*

We recommend that the District strengthen its controls over review of vendors for suspension and debarment.

#### *Current Status*

Partially implemented.

#### *District Explanation if Not Implemented*

On December 1, 2006 the District completed updating all contracts with dollar value of \$25,000 and over with the revised debarment language to include subcontractor compliance. The Contract File Checklist will be revised to incorporate EPLS debarment check for all contracts valued at \$25,000 and over for prime and subcontractors. This will be completed on January 15, 2006.

### (26) **Finding F-05-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding**

#### *Condition*

**Urban Systemic Initiative:** In our sample of 25 expenditures, we noted the following exceptions:

- 3 expenditures over \$5,000 which require either 3 written quotations or an approved waiver, meeting the criteria for a noncompetitive proposal under District policy, had no documentation included in the procurement file.
- 1 contract for over \$100,000 had no evidence of a request for proposal or a completed waiver for competitive bidding.

**Smaller Learning Communities:** In 2 of our 25 sampled program procurement contracts in the amounts of \$118,500 and \$322,746, we noted that they were not competitively bid and the request for waivers for selecting a contractor without conducting a RFP were not approved by the Local District Business Manager/Local District Superintendent, and/or Chief Procurement Officer, Procurement Services Group, as required in the District's policy bulletin No. Bul-426 dated November 3, 2003.

#### *Recommendation*

We recommend that the District strengthen its controls over its procurement approval process to ensure that required competitive bid waivers are approved and maintained in the procurement files to support compliance with noncompetitive bidding requirements.

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***Current Status***

Partially implemented.

***District Explanation if Not Implemented***

The District will review the procedures regarding the requirements to obtain three quotes on contracts valued between \$5,000 and \$65,000. The Contract File Checklist will be revised to include RFP waiver criteria number. The checklist will also be revised by January 30, 2007 to include District requirements for obtaining quotes.

**(27) Finding F-05-22 – Procurement, Suspension, and Debarment – Missing Required Federal Contract Provisions**

***Condition***

In our review of a sample of the District contracts with School Food Authorities, we noted that not all of the required federal language appeared to be contained within the agreement. Specifically, it appeared that provisions 1, 10, 12, and 13 noted above were not clearly identified in the agreement.

***Recommendation***

We recommend that the District review and update its current contract template to ensure that all required federal compliance provisions are properly identified to its vendors.

***Current Status***

Implemented.

**(28) Finding F-05-23 – Program Income – Controls over Cash Receipts Collected at School Sites**

***Condition***

In our review of controls over the reporting of cash collected at the school sites, we noted that cash collected for meals served is reconciled at the school level and reported to the District on the weekly report. We were unable to identify any oversight or monitoring of the cash procedures performed by the cafeteria managers at the school sites to ensure that all cash collected is reported to the District and deposited in the bank.

***Recommendation***

We recommend that the District strengthen controls over the cash collection and reporting process at the school sites.

***Current Status***

Not implemented.

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***District Explanation if Not Implemented***

The District is currently automating Point of Sale system that will significantly strengthen controls over cash collection and reporting process. We continue to train staff on proper procedures of cash handling by highlighting cash collection/handling as a monthly training informative in FY 06-07.

**(29) Finding F-05-24 – Reporting – Incorrect and Unsupported Expenditure Attendance Reports**

***Condition***

As part of our audit procedures, we reviewed supporting documentation for the reported attendance claims made for the program and reconciled the numbers of students claimed by the District against the supporting attendance documentation and noted the following exceptions:

In our sample of quarterly attendance for school sites we sampled a total of 25 quarters where 79,439 attendance days were claimed and noted that 4 of the quarters were underclaimed by a total of 68 days and 1 quarter was overclaimed by 8 days.

***Recommendation***

We recommend the District strengthen its current controls over attendance reporting and claiming to ensure that reports are completed accurately and the District claims all of its entitled attendance days.

***Current Status***

Partially implemented.

***District Explanation if Not Implemented***

The District will revise procedures to ensure an internal review process is conducted to identify errors prior to filing reports.

**(30) Finding F-05-25 – Reporting – Missing Documentation & Errors in Monthly Claim Reports**

**Finding F-04-03 – Allowable Costs – Incorrect Meal Counts Claimed**

***Condition***

During our procedures over daily attendance, the District was unable to provide supporting documentation for the daily attendance for 9 of the 50 days sampled at the sites.

In our review of documentation to support data contained in the District's Unisys system (used for claim reporting) we traced data for 25 weeks to the source origination data of the weekly meals served reports by school site. In our sample of 25 weeks, we noted 3 weeks with discrepancies. One week the District underclaimed breakfasts by 3 and over claimed lunches by 13, another week the District underclaimed breakfasts by 11, and the third week the District under claimed breakfasts by 21.

In our review of documentation used to support the monthly claims made for meal reimbursements, we traced the data from the claims to the figures contained in the District's Unisys System. We noted that 2 of the 12 months reviewed were overclaimed by a total of 22 meals. Either this difference was not found

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during the District's claim review process or an adjustment was made subsequent to the filing, and a revised claim was not filed.

#### ***Recommendation***

We recommend that the District strengthen controls over the claims reporting process to ensure that accurate claims are being filed and any adjustments are incorporated on a revised claim form filed with the CDE.

#### ***Current Status***

Partially implemented.

#### ***District Explanation if Not Implemented***

This will be addressed in improvements which are scheduled to be implemented starting January 2007. There are now two independent reviews conducted to verify the accuracy of the claim; one in General Accounting and another in Food Services branch.

### **(31) Finding F-05-26 – Reporting – Late Expenditure and Attendance Reports**

#### ***Condition***

During our procedures over financial and programmatic reporting, we noted three of the six required reports were not submitted within the required timeframes. The grant agreement from the pass-through agency indicates that late reporting may result in denials of remaining payments of funding or possible reduction of subsequent years' grants. We noted the following reports were submitted past the due date:

The Twenty First CCLC Program, After School Attendance Report Form (1st Quarter Report) was due October 31, 2004 but was submitted November 8, 2004.

#### ***Recommendation***

We recommend the District strengthen its current controls over financial and attendance reporting to ensure that reports are submitted timely.

#### ***Current Status***

Implemented.

### **(32) Finding F-05-27 – Reporting – Schedule of Expenditures of Federal Awards**

#### ***Condition***

**FEMA – Hazard Mitigation:** During our procedures over the District's recording of program expenditures in the Schedule of Expenditures of Federal Awards (SEFA), we noted that the District is only reporting program expenditures on the Schedule of Expenditures of Federal Awards in the year the funds are claimed for reimbursement. At that point, the District records the expenditures into a general ledger account which is included as a federal expenditure and thus included on the SEFA for the entire project amount in the year of completion. This methodology distorts the period in which the federal expenditures are incurred.



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**WIA – Adult Basic Education:** During our examination of the program expenditures reported on the SEFA, we noted that the District had expended a total of \$15,645,918 in the Adult Education grant programs according to the general ledger. The program budget and reported expenditures to the pass-through agency totaled only \$15,253,300, therefore the amount reported in the SEFA is overstated by \$392,618.

**CD Perkins – Vocational & Technical Education:** During our examination of the program expenditures reported in the SEFA, we noted that the District had expended a total of \$12,040,391 in the Vocational Education grant programs. The total program budget and reported expenditures to the pass-through agency were only \$11,941,726, therefore the amount reported in the SEFA is overstated by \$249,099.

#### *Recommendation*

We recommend that the District strengthen its controls over the recording of revenue and/or expenditures from the proper funding source to ensure that the Schedule of Expenditures of Federal Awards accurately reflects all expenditures that are paid by federal grants.

#### *Current Status*

Disagree

#### *District Explanation if Not Implemented*

**FEMA – Hazard Mitigation:** The statement that the District is only reporting program expenditures on the Schedule of Expenditures of Federal Awards in the year the funds are claimed for reimbursement is not true. The expenditures reported in the SEFA are expenditures incurred for the current fiscal year whether claimed for reimbursement or not. All expenditures incurred by FEMA – Hazard Mitigation in the Schedule of Federal Awards are valid expenditures supported by proper documentation, that is, payments to vendors are processed and paid by Accounts Payable Section when invoices supported by proper documentation are received not at the time the projects are completed.

**WIA – Adult Basic Education:** The Schedule of Expenditures of Federal Awards is overstated by \$392,618 because these are expenditures which were legally obligated in FY 04. These legal obligations were reported to the pass-through agency in FY 04 expenditure report. The total budget and expenditures reported to the pass-through agency in FY 05 include both the current year expenditures and legal obligations as of June 30, 2005. The grant award conditions for WIA – Adult Basic Education states that all funds must be expended and legally obligated by June 30, 2005.

**CD Perkins – Vocational & Technical Education:** The SEFA is overstated by \$249,099 because these are expenditures which were legally obligated in FY 04. These legal obligations were reported to the pass-through agency in FY 04 expenditure report. The total budget and expenditures reported to the pass-through agency in FY 05 include both the current year expenditures and legal obligations as of June 30, 2005. The grant award conditions for CD Perkins – Vocational & Technical Education state that all funds must be expended and legally obligated by June 30, 2005.

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**(33) Finding F-05-28 – Reporting – Expense Claim not Supported by General Ledger**

*Condition*

During our procedures performed over the request for reimbursement of funds, we traced the reported reimbursable expenditure amount to the District's general ledger. The general ledger supported a total expenditure amount of \$59,145,530, which was then adjusted for multiple reconciling items to arrive at the \$62,757,977 reported to FEMA. The District was unable to explain or support the nature of reconciling items which netted to \$3,612,447.

*Recommendation*

We recommend that the District strengthen its controls over its claims to funding agencies to ensure that claims for reimbursement are calculated correctly and all adjusting items properly supported.

*Current Status*

Disagree.

*District Explanation if Not Implemented*

The District reviewed the expenditures cited by the auditors and concluded that the situation noted is the reverse of what actually happened. The reconciling item they referenced actually reduced, not increased, the District's claim to FEMA. The reconciling items were project costs we deemed were not eligible for FEMA funding, and reduced our claim accordingly. The original claim of \$62 million was reduced to \$59 million.

**(34) Finding F-05-29 – Subrecipient Monitoring – Federal Award Identification to Subrecipients**

*Condition*

During our procedures performed over contracts with subrecipients, we noted 10 of the 12 contracts did not contain all the federal award information required to be identified to the subrecipient. Items not identified in the contracts include the CFDA Title and number and federal agency name. The District was also unable to provide us with copies of 2 agreements with its subrecipients.

*Recommendation*

We recommend that the District revises its current contract template to include the required references for federal pass-through funds and also issue addendums to existing contracts to ensure that the subrecipients are properly notified of the various requirements of participating in federally funded programs. We also recommend that the District maintains copies of all agreements with its subrecipients as required under OMB Circular A-133.

*Current Status*

Implemented.

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**(35) Finding F-05-30 – Subrecipient Monitoring – Monitoring Procedures over Subrecipients**

***Condition***

During our procedures performed over subrecipients, we noted the following:

The District was unable to provide either copies of the subrecipient single audit report nor had they reviewed a copy online at <http://harvester.census.gov> for 1 of their 10 subrecipients.

The District performs site visits on its subrecipients to ascertain if they are operating the program in accordance with requirements, but was unable to provide 2 of the 38 sampled site visit observation forms.

***Recommendation***

We recommend the District strengthen its current controls over subrecipient monitoring to ensure that subrecipients are complying with federal grant requirements.

***Current Status***

Partially implemented.

***District Explanation if Not Implemented***

The District now requires the timely reporting of all subrecipients OMB A-133 audits. These audits are reviewed for findings and the District ensures that subrecipients have taken steps to remedy the findings. Beyond the Bell is in the process of completely revamping the site observation process to ensure greater accuracy and depth.

**(36) Finding F-05-31 – Special Tests and Provisions (Highly Qualified Teachers) – No Policies to Ensure Newly Hired Teachers are Highly Qualified**

***Condition***

The District does not currently have a policy to ensure that newly hired teachers (hired after the first day of the 2002-2003 school year) teaching core subjects at schools supported by Title I funds are highly qualified as defined by 34 CFR Section 200.56.

***Recommendation***

Since the District is required to implement the highly qualified teacher requirement for all teachers of core subjects in schools supported by Title I funds no later than the end of 2005-2006 school year, we recommend the District implement the newly hired portion as soon as possible.

***Current Status***

Implemented.

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**(37) Finding F-05-32 – Special Tests and Provisions (Participation of Private School Children) – No Support for Participating Private School Expenditures or Equal District vs. Private School Pupil Expenditure Ratios**

*Condition*

**Safe and Drug-Free Schools:** The District was unable to provide documentation to support the amount of expenditures incurred for each of the private schools participating in the Safe and Drug-Free School program, the per pupil expenditure ratio for those participating private schools, and the comparable participating District student expenditure ratios for the fiscal year 2004-2005.

**Innovative Education Program Strategies:** In a sample of 25 private schools participating in the Title V, Part A program, we noted the per pupil expenditure ratios for the private schools ranged between \$2.14 to \$3.75 with one school at \$25.60 per student; however, the District was unable to provide the comparable participating District student expenditure ratios for 2004-05 to ensure that the private schools' children were receiving equal amounts on a per pupil basis. Therefore, we are unable to assess compliance with this requirement.

*Recommendation*

We recommend that the District develop a process to reasonably estimate the District per pupil ratio at the time of the private schools' award assessment process and to compare the District's final per pupil ratio against the amounts awarded to the participating private schools.

*Current Status*

Partially implemented.

*District Explanation if Not Implemented*

All requests for services or resources are documented and on file. In determining the value of resources provided to non-public schools, a calculation is performed to ensure the value of services is equal with resources provided to District schools.

**(38) Finding F-05-33 – Special Tests and Provisions – Verification of Free/Reduced Price Applications Errors in Verification of Student Applications**

**Finding F-04-08 Special Tests and Provisions – Verification of Free/Reduced Price Applications – No controls over Verification Process**

**Finding F-04-09 Special Tests and Provisions – Verification of Free/Reduced Price Applications – Errors in Verification of Student Applications**

*Condition*

In our review of the results of the sampled applications and adjustments proposed and reported as a result of the verification process we noted two of the five schools sampled contained mathematical errors in the manual transfer of adjustment data to the summation worksheet. We noted no specific oversight controls performed over the employees' recomputations to ensure accuracy.

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***Recommendation***

We recommend the District strengthen controls over the verification process to ensure that adjustments made as a result of the verification are accurately compiled and reported.

***Current Status***

Partially implemented.

***District Explanation if Not Implemented***

The District implemented a new meal application scanning system that keeps all application submitted to Food Services on a database and is easily retrievable. The system will be able to pre-print the information of the household that will be submitted for verification which will eliminate errors of identification. Food Services will provide training to Meal Audit Clerks on the verification process and implement a second review by a Senior Audit Clerk. This extra step will improve accuracy in the verification process.

**(39) Finding F-05-34 – Special Tests and Provisions – School Food Accounts – Transfers Out of the Food Service Account that do not Benefit School Food Service**

***Condition***

During our procedures performed over School Food accounts, we noted one transfer out of the school food account for \$1,362,788 that was transferred to the special education fund of the District. Based on a reading of District correspondence, this transfer was made under the State of California Budget Flexibility Provisions. In reviewing the audit conducted by the California Department of Education, Nutritional Services Division, NSLP CRE Summation Report dated April 29, 2005, they noted a transfer made under the same provisions during 2003-04 for \$2,641,751 as a finding in their report and requested written justification for the fund transfer and an explanation of what the funds were used for from the accounting branch.

***Recommendation***

We recommend that the District assess the appropriateness of the transfers out of the program and replenish such funds if deemed necessary to comply with various federal and state requirements.

***Current Status***

Implemented.

**(40) Finding F-04-02 – Allowable Costs – Controls over Meal Counts**

***Condition***

**Child Nutrition Care Food Program:** In our review of 30 daily count forms, we noted that 11 forms were prepared and signed by only one employee indicating no independent review occurred. We also noted meals on the weekly reports that were not claimed. Upon further inquiry, we noted that the school did not resolve discrepancies on the report within the allowed time period, which resulted in 1,975 unclaimed.

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**Child Nutrition Cluster:** In our procedures performed over daily meal counts, we noted one person generally counts the number of meals without a second person verifying the count. We also noted the cafeteria manager usually prepares and approves the weekly reports.

#### ***Recommendation***

We recommend that the District implement policies and procedures to improve controls over the daily meal count forms and weekly reports. This may include periodic independent reviews performed on the counts and reports to ensure accuracy, completeness, and timeliness of meals claimed for the program, or more detailed specific training.

#### ***Current Status***

Implemented.

#### **(41) Finding F-04-07 – Allowable Costs – Retention of Student Meal Tickets**

#### ***Condition***

In our review of 25 weeks of student meals claimed, we noted that the schools sampled retained only 3 weeks of the 25 weeks of meal tickets to support the claims submitted. Per review of the tickets used in the program, the tickets contain identification numbers that can be traced back to a specific child. The schools rely upon the weekly reports as support for their claims, but these documents are not reliable supporting documentation based upon the exceptions noted in our procedures performed over the weekly reporting process.

#### ***Recommendation***

We recommend that District review its current retention policy to support meals claimed to ensure compliance with guidelines prescribed by the USDA and that it maintains accurate and appropriate documentation to substantiate claims made on the program through either retention of tickets or more accurate and detailed compilation of the weekly reports, as appropriate.

#### ***Current Status***

Disagree.

#### ***District Explanation if Not Implemented***

The District believes its reporting system is adequate to verify meal claims. In addition to Weekly Reports, daily Menu Production Records are other documents that can substantiate meal claims. These records are retained for three years. These documents have been accepted by the CDE and the United States Department of Agriculture, the regulatory agencies for all child nutrition programs, as supporting documents of meal claim in previous audits (Coordinated Review Efforts).

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**(42) Finding F-04-13 – Allowable Costs – Service Provider Claims Not Supported by Signed Daily Attendance Rosters**

***Condition***

In our sample of 25 signed daily attendance reports sampled and traced to the service provider claims submitted, we noted 22 daily reports did not support the 3,369 students claimed for reimbursement, which amounted to a net 240 students overclaimed by the service providers.

***Recommendation***

We strongly recommend that the District review controls for approving invoices to be charged to federal programs by ensuring that service provider invoices are reconciled to the supporting attendance reports before payments are made.

***Current Status***

Implemented.

**(43) F-04-18 – Matching, Level of Effort, and Earmarking – No Formal Documentation Retained to Support Supplement not Supplant Requirements**

***Condition***

The District does not have a policy in place to perform a documented analysis of compliance each year with federal supplement not supplant regulations. They have developed various control procedures through the budgeting process to reduce the risk of noncompliance; however, no documented analysis is performed to ensure compliance at the end of the year.

***Recommendation***

We recommend that the District develop and perform a formal documented analysis each year that demonstrates their compliance with the supplement not supplant requirements for Title I, Part A Schoolwide and Targeted Assistance schools and 21<sup>st</sup> Century after school programs to ensure that the District can adequately demonstrate their compliance with these requirements.

***Current Status***

Partially implemented. The District has developed procedures for a formal documented analysis to ensure compliance with the supplement not supplant requirements for Title I, Part A Schoolwide and Targeted Assistance schools and 21<sup>st</sup> Century after school programs.

**FINDINGS RELATING TO STATE AWARDS**

**(44) Finding S-05-01 Attendance Accounting – Primary Schools - Errors in Attendance Computations**

***Condition***

For Alexandria Ave Elementary we selected a sample of 7 students for 120 days of attendance for the third school month. From this sample, we noted days of attendance were overstated by 3 days. These errors

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appeared to be manual compilation errors in transferring data from the daily attendance records to the monthly summaries, which are ultimately included on the second Principal or Annual Summary Report.

***Recommendation***

We recommend that the School strengthen its review process over the compilation of the Monthly Statistical Reports to ensure that the report accurately reflects student attendance days.

***Current Status***

Implemented.

**(45) Finding S-05-02 Attendance Accounting – Secondary Schools – Errors in Attendance Computations**

***Condition***

For Wilmington Middle School, Huntington Park High School, and Taft High School, we selected a sample of 30 students for 498 days of attendance for the third school month. From this sample, we noted days of attendance were overstated by 13 days. These errors appeared to be manual compilation errors in transferring data from the daily attendance records to the monthly summaries, which are ultimately included on the second Principal or Annual Summary Report.

Wilmington Middle School – Attendance was overstated for 1 student by 1 day.

Huntington Park High School – Attendance was overstated for 3 students by 1 day and for 1 student by 3 days. Also, the Schools' Statistical Report did not agree to the District's Annual Attendance Report by a net 31 days.

Taft High School – Attendance was overstated for two students by one and five days, respectively.

***Recommendation***

We recommend that the District strengthen their review process over the compilation of the Monthly Statistical Reports and Annual Summary Reports to ensure that the reports accurately reflects student attendance days.

***Current Status***

Implemented.

**(46) Finding S-5-03 Kindergarten Continuance – Missing Approval Forms**

***Condition***

We selected a sample of 46 kindergarten students from 15 elementary schools to verify that the District obtained a signed parental agreement to continue form for pupils repeating kindergarten. From our sample, we noted one school was unable to provide a signed parental agreement to continue form for 1 student repeating kindergarten.



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***Recommendation***

We recommend that the School and District implement controls to maintain evidence of approved parental agreements to continue forms for all students repeating kindergarten to support the inclusion of such pupils in the average daily attendance computation.

***Current Status***

Implemented.

**(47) Finding S-05-04 Attendance Accounting – Independent Study – Errors in Attendance Computations**

***Condition***

We selected a sample of 25 students for third school month, resulting in a total sample of 308 days. From this sample, we noted attendance was overstated by 1 day. Further, the Statistical Report was underreported by 20 days. These errors appeared to be manual compilation errors in transferring data from the student work assignments to the daily attendance records, which are ultimately included on the Statistical and Annual Summary Reports.

Also, the third school month period on the teacher's attendance roster did not agree to the period noted on nine students' work assignments.

***Recommendation***

We recommend that the District strengthen its review process over the compilation of the Monthly Statistical Reports, to ensure that the reports accurately reflect the work assignments completed by the students. Further, we recommend the District implement controls to ensure teacher registers and student assignment sheets are consistent and accurate.

***Current Status***

Implemented.

**(48) Finding S-05-05 Attendance Accounting – Independent Study – Missing Required Elements of Independent Study**

***Condition***

We selected a sample of 25 written agreements for required elements. From this sample, we noted 1 agreement that did not contain the number of course credits to be earned upon completion.

***Recommendation***

We recommend that the District monitor the agreements enacted by the teachers with the students and parents to ensure that they are accurate and complete.

***Current Status***

Implemented.

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**(49) Finding S-05-06 Independent Study – Concurrently Enrolled Students**

***Condition***

We selected a sample of 25 students to determine whether the student was enrolled in a local education agency while engaged in full-time independent study. Due to system limitations, the District was unable to provide us with documentation verifying whether students were concurrently enrolled at another school.

***Recommendation***

We recommend that the School maintain evidence of student enrollment, including students that are concurrently enrolled in a local education agency while engaged in full-time independent study.

***Current Status***

Disagree.

***District Explanation if Not Implemented***

Current enrollment procedures at City of Angels ensure that their full-time independent study students are not concurrently enrolled at another secondary school.

**(50) Finding S-05-07 – Attendance Accounting – Continuation Education – Attendance Computations**

***Condition***

We selected a sample of 25 students for four weeks of attendance in the District's third school month. The District's policy is to allow the student to make up time that was not earned at the maximum of 15 hours (or equivalent) for a week in a future week, as long as it is made up within the same school month. The school was unable to provide supporting documentation linking the use of surplus hours to corresponding weeks where students missed hours. They were also unable to provide us with supporting documentation which ties individual student attendance cards or teacher attendance rosters to the numbers reported on the Monthly Statistical Report.

***Recommendation***

We recommend that the District update its current surplus hour tracking and implement a documentation procedure/worksheet which tracks the accumulation and use of surplus hours which could then support the use of those hours which are being reported on the Monthly Statistical Reports and ultimately claimed to the state.

***Current Status***

Implemented.

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**(51) Finding S-05-08 Attendance Accounting – Continuation Education – Work Experience**

*Condition*

We selected a sample of 25 students for 4 weeks of work experience in the District's third school month. From this sample, the District could not provide evidence supporting the work experience hours for 13 students resulting in a potential overstatement of 130 hours.

*Recommendation*

We recommend that the District monitor the students' attendance of the periods of work experience instruction to ensure that they do not claim any hours of work experience for which the student does not attend the required instruction.

*Current Status*

Partially implemented.

*District Explanation if Not Implemented*

District staff will include the review of documents in site visits to monitor proper completion and maintenance of required documentation.

**(52) Finding S-05-9 Instructional Time and Staff Development Reform Program**

*Condition*

We selected a sample of 88 total staff development days claimed by 13 schools. From this sample, we noted 9 of the 13 schools did not maintain documentation supporting the attendance of teachers, resulting in an overstatement of 55 staff development days.

*Recommendation*

We recommend that the District provide additional training to program administrators regarding documentation requirements and develop standard forms that would assist the schools in documenting all of the required elements to ensure that they will be compliant.

*Current Status*

Implemented.

**(53) Finding S-05-10 Attendance Reporting – Community Day School – Attendance Reporting Errors**

*Condition*

We selected a sample of 64 students for 433 student days. For 5th and 6th hours of attendance in the District's third school month, we noted the following differences:

For the 5th hour attendance, we noted overstatements totaling 22 student days and understatements totaling 14 student days

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For the 6th hour attendance, we noted overstatements totaling 13 student days and understatements totaling 18 student days.

#### ***Recommendation***

We recommend that the School review its current hourly attendance record-keeping procedures to ensure that the school records accurately reflect each hour of student attendance or absence including the 5th and 6th period hours.

#### ***Current Status***

Implemented.

#### **(54) Finding S-05-11 School Construction Funds – Transfer of Ineligible FEMA Costs to Bond Funds**

#### ***Condition***

FEMA's Office of the Inspector General (OIG) disallowed costs that were incurred and charged by the District to the FEMA public assistance program between 1994 and 2002. In the OIG's report dated February 13, 2003, they indicated disallowed costs from their sampled District school public assistance projects of \$11,410,560. The District's Board of Education authorized Measure K bond funds to be used as an interim funding source for the projects that were previously paid for by FEMA. The District charged \$6,105,221 to the Measure R bond fund and \$4,531,631 to the County School Facilities Fund during the year ended June 30, 2005 for these FEMA disallowed costs that were incurred between 1994 and 2002.

We selected five schools whose expenditures were indicated as disallowed on the OIG report, identified in summary level with only the school name and dollar amount, that were transferred into the school bond funds and requested detail project information and supporting documentation to determine if the transferred costs were allowable for the purpose for which the bonds were issued. The District provide a journal entry which transferred \$10,636,852 of FEMA costs to bond funds. Of the \$10,636,852, the District transferred \$6,105,221 from the FEMA Public Assistance Fund to the Measure R fund (bond fund). The remaining \$4,531,631 was transferred to the State School Facilities Fund (bond fund). For the above transfers, the District was unable to provide invoices to support the types of expenditures that were incurred which would be used to test the allowability of the expenditures under the various bond measures. Thus, we are unable to verify that bond proceeds were expended only for the purposes for which the bonds were issued.

#### ***Recommendation***

We recommend that the District implement detailed authorization policies for fund transfers relating to Bond Measure Funds to ensure that all expenditures transferred are for the purposes for which the bonds were issued. Further, we recommend that the District maintain a documentation retention policy that requires management to keep supporting detail such as approval memos, invoices, and check copies related to journal entries.

#### ***Current Status***

Implemented.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Status of Prior Year Findings and Recommendations

Fiscal Year Ended June 30, 2006

**(55) Finding S-05-12 – School Construction Funds – School District Bonds**

*Condition*

We selected a sample of 50 school district bond expenditures to determine whether they were spent for purposes for which the bonds were issued. Of the 50 expenditures, 1 expenditure was for a bridge loan between the District and an independent charter school. The expenditure resulted in \$1,000,000 of questioned costs of the \$49,810,370 sampled.

*Recommendation*

We recommend that the District implement detailed policies for bond proceeds withdrawn to ensure that all expenditures are for the purposes for which the bonds were issued.

*Current Status*

Implemented.

**(56) Finding S-05-13 – School Construction Funds – State School Facilities Fund Expenditures**

*Condition*

We selected a sample of 25 expenditures paid from the District's county school facilities funds to determine whether the proceeds from bonds were spent on qualifying school facilities expenditures. Of the 25 expenditures, 14 expenditures did not appear to qualify as school facilities expenditures. Examples of these unallowable costs were purchases of musical instruments, a coffee maker, a compact disc player, a digital camera, and a camcorder. The 14 expenditures resulted in \$56,686 of questioned costs of the \$174,928 sampled.

In addition, we selected two journal entries for review of support for allowability of costs. In the first journal entry, we noted that the District accrued for \$1,462,649 of estimated expenditures and not on actual purchase orders and invoices. The second journal entry transferred \$225,371 to the county school facilities funds, where management was unable to provide any detail supporting the allowability of the transfer of expenditures.

*Recommendation*

We recommend that the District strengthen controls over the authorization of county school facilities bond expenditures to ensure they are made for qualifying expenditures. We also recommend that the District accrue expenditures based on actual invoices and purchase orders. Lastly, we recommend that the District implement a detailed authorization policy for fund transfers relating to bonds to ensure that all expenditures transferred are for the purposes for which the bonds were issued. For such transfers, the District should maintain a documentation retention policy that would require management to keep supporting detail such as approval memos, invoices, and check copies related to journal entries.

*Current Status*

Implemented.

**LOS ANGELES UNIFIED SCHOOL DISTRICT**

Status of Prior Year Findings and Recommendations

Fiscal Year Ended June 30, 2006

**(57) Finding S-05-14 – Instructional Materials – Insufficient Textbook and Instructional Materials Not Supported Insufficiencies Not Corrected Within Required Deadlines**

***Condition***

We reviewed the District's Board of Education Report 196-04/05 entitled *Textbooks and Instructional Materials Certification Resolution* presented to the Board on November 23, 2004 and adopted on December 14, 2004 and noted the following regarding the sufficiency of textbooks and/or instructional materials in the core curriculum areas:

“Whereas, the governing board is required by Education Code Section 60119 to hold a public hearing and encourage district stakeholder participation or risk losing all State textbook and instructional materials funds,

Whereas, the governing board is required to make a determination, through a resolution, as to whether each pupil in the District has, sufficient textbooks or instructional materials, or both, in each subject, that are consistent with the content and cycles of the curriculum framework adopted by the State Board of Education. The governing board is additionally required to hold a public hearing at a time convenient for parents and teachers by the eighth week of the school year. Education Code 60119 defines sufficient textbooks or instructional materials to mean that each pupil has materials to use in class and to take home to complete homework assignments.

Whereas, additional funding was allocated in the 2004-2005 school year for Grades K-12 to support the purchase of textbooks in the core curriculum areas of reading/English/English Language Development (ELD), English as a Second Language (ESL), and/or intervention textbooks, history/social science, mathematics, and science, and in the subject area of foreign language for Grades 9-12, now therefore, be it.

*Resolved*, That the Los Angeles Board of Education declare that after receipt of outstanding orders, all schools will have sufficient textbooks in the core curriculum areas of reading/English/English Language Development (ELD), English as a Second Language (ESL), and/or intervention textbooks, history/social science, mathematics, and science for Grades K12, and in the subject area of foreign language for Grades 9-12. The local districts have requested 1.8 million dollars since norm day to meet core instructional material needs. Orders have been placed but the materials may not have arrived at the school sites.”

*Resolved*, That the use of the Open court Reading Program provides standards-based instruction in science and history/social science for kindergarten through grade three at the elementary school level, which partially meets the state-content standards in those subjects, in addition to the literacy development.

*Resolved* further, That the governing board certify that it has complied with the requirements of Education Code Section 60119 for the 2004-2005 fiscal year.”

## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Status of Prior Year Findings and Recommendations

Fiscal Year Ended June 30, 2006

Although this legislation was not enacted until after the traditional school year had already begun making it difficult for the District to respond and take corrective action within the required timeframe, it would appear that the District is not in compliance with this requirement for the fiscal year ending June 30, 2005.

#### ***Recommendation***

We recommend that the District take steps to ensure that they are in compliance with the Education Code Section 60119 for the year ended June 30, 2006.

#### ***Current Status***

In December 2004, the Board of Education adopted the Textbooks and Instructional Materials Certification Resolution (No. 196-04/05) (Textbook Resolution) at a publicly noticed hearing on textbooks and instructional materials. In the Textbook Resolution, the Board declared that after all orders have been received, "all schools have sufficient textbooks in the core curriculum areas of reading/English/English Language Development (ELD), English as a Second Language (ESL), and/or intervention textbooks, history/social science, mathematics, and/or science." The District believes, therefore, that the governing board in the Textbook Resolution declared that there were sufficiencies in all required subject matters.

The District also notes that the principal insufficiencies indicated in the audit findings referenced above (Science Laboratory materials in the secondary schools, Health textbooks, Foreign Language materials at the secondary schools) are not subject to a finding of a funding disallowance. Section 60119(a)(1)(C) provides that the "provision of textbooks, instructional materials or science equipment specified in this subparagraph [which includes foreign languages and health course materials] is not a condition of receipt of funds provided by this subdivision."

Additionally, in 2004-05, the District adopted guidelines that established the targeted purchase of textbooks and instructional materials in the core subject areas. These guidelines also established a procurement process by which requires from school sites for core subject area textbooks and instructional materials would be approved, funded, and purchased on a continuous and priority basis. In 2005-06 in addition to IMA funds received from the State, the District established a textbook and instructional material reserve in the amount of \$47.5 million of general funds.

Finally, reference in the audit finding referenced above is made to the requirements of Title V, Code of California regulations, Section 19828.1, which was adopted on February 10, 2005, after the Board of Education adopted the Textbook Resolution subject of the present audit. The auditing standard in effect as of the date of the Textbook Resolution (November 23, 2004) was former Section 19828. The District believes that the requirements of former Section 19828 would be the more appropriate standard to determine the compliance of this Textbook Resolution and request that the auditors use this former standard for the present audit of this District.

In light of the foregoing, the District does not believe a finding that the full amount of the Instructional Materials Funding Realignment Program grant should be the questioned costs.