



Los Angeles Unified School District

Los Angeles, California

Popular Annual Financial Report For Fiscal Year Ended June 30, 2006



LETTER *from the* SUPERINTENDENT

To The Citizens and Taxpayers of the Los Angeles Unified School District:

I am pleased to present the 2005-06 Popular Annual Financial Report, which demonstrates that the Los Angeles Unified School District's (LAUSD) prudent fiscal and instructional policies are keeping the District in a very strong financial condition.

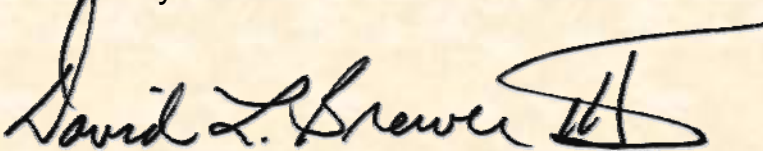
The independent bond rating agencies (Standard and Poor's, Moody's and Fitch) have confirmed the District's strong credit quality by assigning high ratings.

Wall Street and international bond market investors have demonstrated their confidence in the District by vigorously bidding on LAUSD bonds. LAUSD notes earned the highest interest rates among other California school districts, counties and cities in a note sale in November. LAUSD operated a balanced budget for each of its operating funds and ended its 2005-06 fiscal year with over \$4 billion in net assets.

With rising test scores and the opening of new schools, the District has built a solid foundation for success. We must continue to strive to improve middle and high school achievement and our graduation rate.

I am committed to building on the solid foundation built by the sound instructional and fiscal policies of the last few years. With your help, involvement and investment, we can transform this District into an institution that provides a world-class education for every child.

Sincerely,

A handwritten signature in black ink that reads "David L. Brewer III". The signature is written in a cursive style with a large, sweeping flourish at the end.

David L. Brewer III
Superintendent

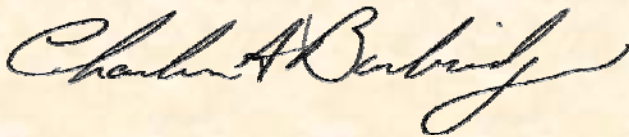
A MESSAGE *from the* CHIEF FINANCIAL OFFICER

The Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2006 was developed to communicate our District's finances in an open, transparent and accountable manner to our constituents, community, parents, teachers, students, supporters, other interested parties using a format that is easy to understand.

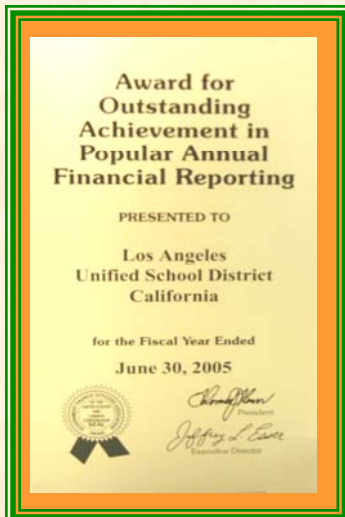
The PAFR summarizes the financial activities and operating results contained in our Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in conformance with Generally Accepted Accounting Principles (GAAP) while the PAFR is prepared on a non-GAAP basis. This non-GAAP report does not include all the funds of the District, full disclosure of all material events, or notes to the financial statements. The CAFR includes audited financial statements, disclosures, opinions of our independent external auditors, and other detail financial information. The independent audit was performed by KPMG LLP 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*. A copy of the CAFR is available from the Chief Financial Officer (CFO)'s office and posted on the CFO's website at www.lausd.net/cfo.

LAUSD wishes to thank all our partners in providing a quality public education and assisting all students to achieve their maximum potential.

Sincerely,



Charles A. Burbridge
Chief Financial Officer



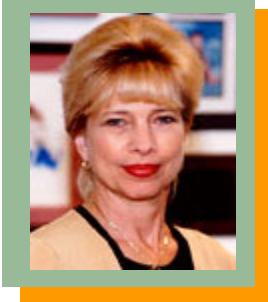
Mission Statement

The teachers, administrators and staff of the Los Angeles Unified School District believe in the equal worth and dignity of all students and are committed to educate all students to their maximum potential.

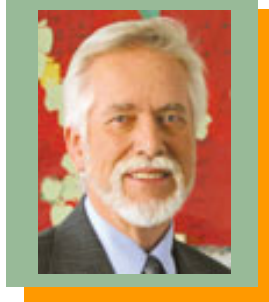


LAUSD Leadership

Board of Education Members



Julie Korenstein
District 6



Jon Lauritzen, Vice President
District 3



Marlene Canter, President
District 4



Mónica García
District 2



Mike Lansing
District 7



Marguerite Poindexter LaMotte
District 1



David Tokofsky
District 5

Administrative Officials



David L. Brewer III
Superintendent



Charles Burbridge
Chief Financial Officer

Superintendent

David L. Brewer III (Effective November 13, 2006)
Roy Romer (Retired effective December 15, 2006)

Chief Financial Officer

Charles A. Burbridge

Local District Superintendents

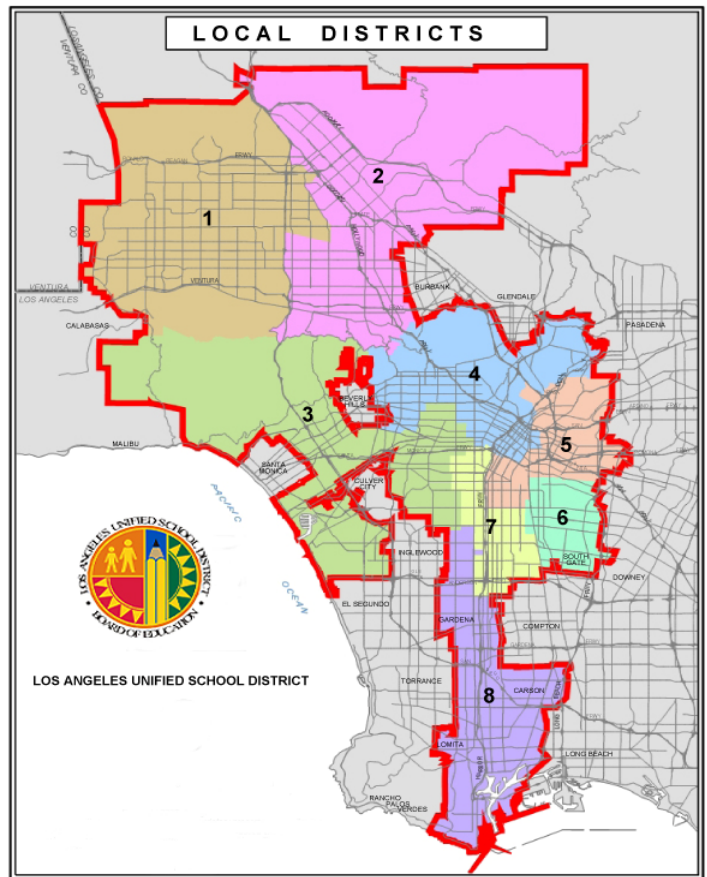
Jean Brown	District 1 Tel (818) 654-3600
James Morris	District 2 Tel (818) 755-5300
Grace Strauther	District 3 Tel (310) 253-7100
Richard Alonzo	District 4 Tel (323) 932-2266
Carmen N. Schroeder	District 5 Tel (323) 224-3100
Martin Galindo	District 6 Tel (323) 278-3900
Carol Truscott	District 7 Tel (323) 242-1300
Myrna Rivera	District 8 Tel (310) 354-3400

District Profile

LAUSD encompasses approximately 710 square miles in the western section of Los Angeles County. The District is located in and includes virtually all 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 option schools, 10 multi-level schools, 17 special education schools, 22 magnet schools and 138 magnet centers, 24 community adult schools, 5 regional occupational centers, 5 skills centers, 1 regional occupational program center, 100 early education centers, 5 infant centers, 27 primary school centers, and 1 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 non-regular employees. Enrollment as of October 2006 was 673,500 students in K-12 schools, 145,768 students in adult schools and centers, and 1,052 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.



Enrollment

K – 12	673,500
Other	156,820
Total	830,320

Number of Schools and Centers

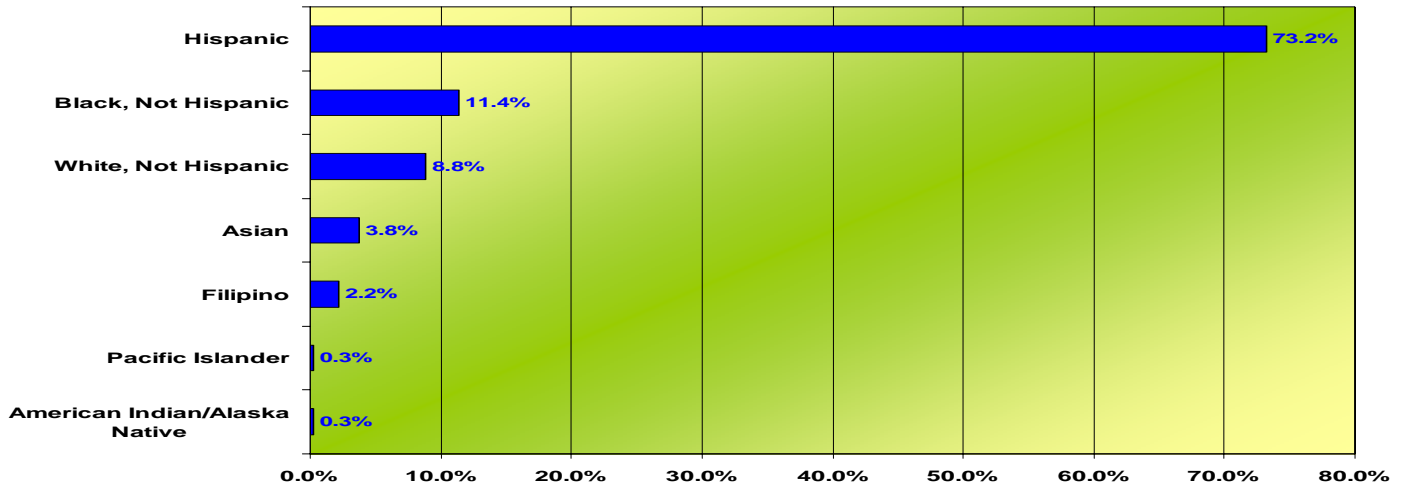
986

Total Regular Employees: 77,377

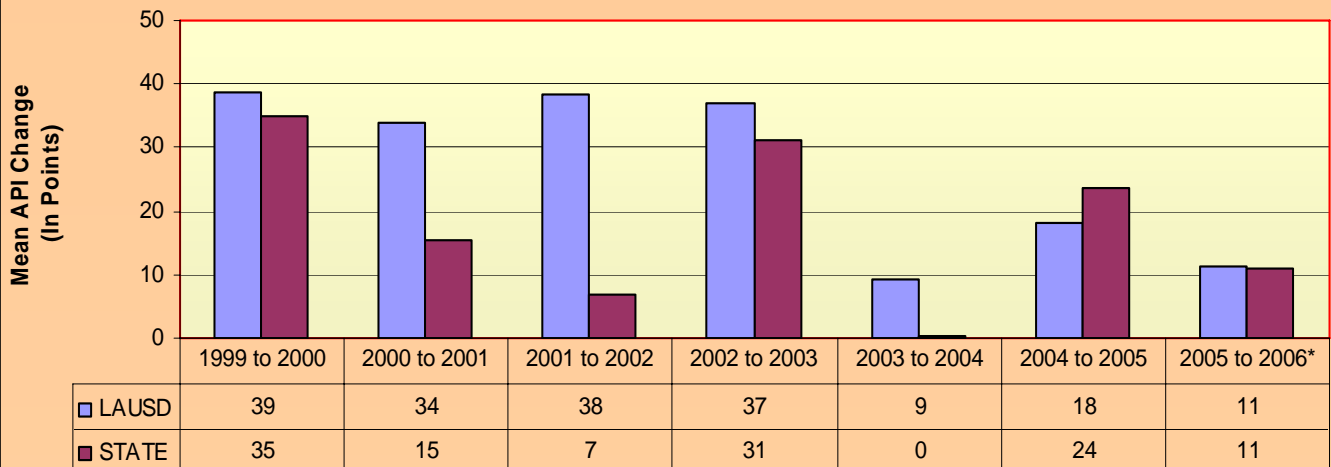
Regular Teachers	47%
(includes K-12, adult & early education teachers)	
Other Certificated - Support	7%
(includes school psychologists, nurses & counselors)	
Other Certificated - Administrators	4%
(includes school-based, local district & central office administrators)	
Classified Personnel (full-time)	42%

About *Our* Students

Students' Demographics



Academic Performance Index (API) Change LAUSD and State



Notes: Alternative School Accountability Model (ASAM), small schools and direct funded charter schools are excluded.
*API for 2006 from API growth file, API for other years from API base file.

Academic Goals and Achievements

ELEMENTARY SCHOOLS

The District has 437 elementary schools serving 306,949 students.

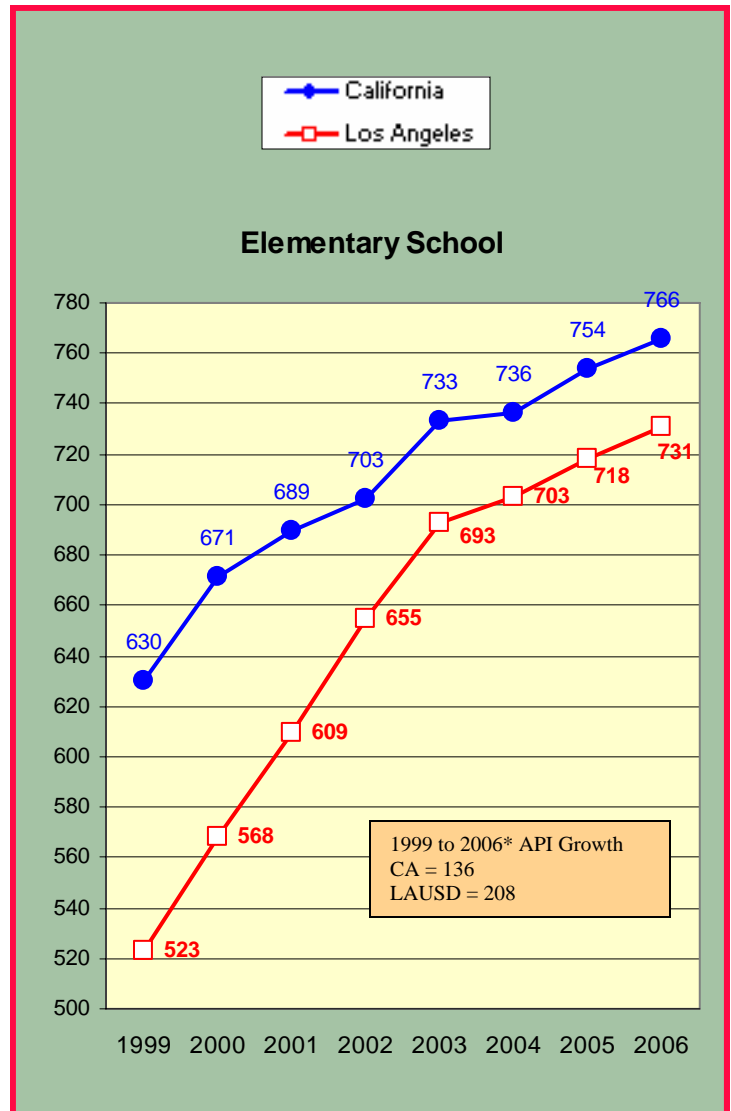
Goals:

The District's fundamental goal is to improve student learning to enable all students to achieve high academic standards. It is the District's elementary schools that have the responsibility of setting this foundation. To reach this goal, the highest priorities at the elementary level are:

- To provide a safe, secure and respectful environment.
- To ensure all students have access to and engage in a rigorous, culturally relevant, standards-based curriculum delivered by highly qualified teachers in the areas of reading/language arts, mathematics, science, social studies, visual and performing arts, health and physical education, and character education.
- To ensure all students read and write at grade level.
- To ensure all students demonstrate mathematics skills at grade level.
- To ensure English learners (ELs) and standard English learners (SELs) are proficient in academic English and achieve high content standards in all academic areas.
- To eliminate the achievement gap between students meeting standards and those who are not.
- To ensure students with disabilities receive appropriate services and instruction in order to meet and exceed State standards.
- To provide focused professional development to teachers and administrators as the key to improving classroom practice.
- To provide meaningful opportunities for parents and community members to actively engage at their local school site as well as participate in local school decision-making.

Growth in Student Achievement:

Based on Academic Performance Index (API) scores since 1999, District elementary schools have demonstrated significant academic progress in recent years, both as measured against the District's previous performance and against the State as a whole. While gaining 208 API points between 1999 and 2006 (growth of 39.8%), the District has decreased the difference between its own API score and that of the State as a whole by 72 points, from a 107-point spread in 1999 to a difference of only 35 points in 2006.



Academic Goals and Achievements

MIDDLE SCHOOLS

The District has 74 middle schools serving 141,984 students.

The middle schools have been actively engaged in middle grade level reform to address their purpose and function as middle schools and to put students first by meeting the intellectual, social, emotional, moral, and physical developmental needs of young adolescents. LAUSD middle schools serve students in grades six through eight. Middle Schools support student achievement through the following elements: 1) exhibiting a commitment to young adolescents and understanding their developmental nature; 2) sharing a common vision that reflects the best that can be provided for the middle level student including focusing on student achievement, student-teacher relationships and community participation; 3) having high expectations for all including staff, teachers, parents, and the students themselves by engaging them intellectually, emotionally, socially, and physically in becoming responsible citizens; 4) providing personalization of instruction and developing adult advocates for each student in order to provide needed support; 5) developing family and community partnerships in the education of young adolescents through participation in parental and community organizations and local school governance; and 6) providing a positive school climate that ensures that students engage in learning activities in an inviting, clean and safe environment.

Goals:

Goals for middle schools in California are defined by the State in content standards as measured by The California Standards Test which currently is administered in the areas of English/Language Arts, Mathematics at the 6th, 7th, and 8th grade levels. In addition, District middle schools engage in programmatic tenet development including:

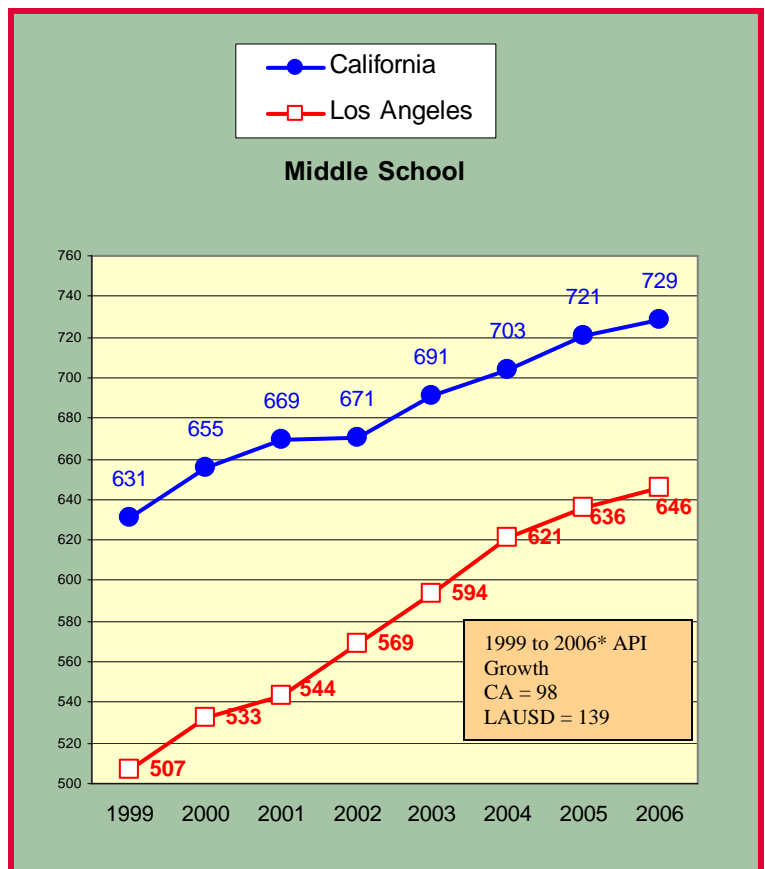
- incorporating standards-based curriculums that are rigorous, integrative, and exploratory;
- providing varied teaching and learning

approaches to improve student literacy through providing differentiated instruction and incorporating culturally relevant and responsive pedagogy;

- engaging students in periodic assessments and evaluation opportunities that promote learning;
- providing flexible organizational structures including but not limited to coring, teaming, and developing small learning communities;
- ensuring that programs and policies are in place for fostering student safety, health, and wellness; and providing comprehensive guidance and support services.

Growth in Student Achievement:

Based on results of the California standards Tests, District middle schools have demonstrated significant academic progress in recent years. Middle schools have improved by 139 API points between 1999-2006, an improvement of 27.4%, as compared to the State's overall improvement of 98 points (15.5%)



Academic Goals and Achievements

SENIOR HIGH SCHOOLS

The District's senior high schools serve students in grades 9-12 in a four year program designed to prepare them for success in future studies and careers. The District has 61 senior high schools serving 168,325 students.

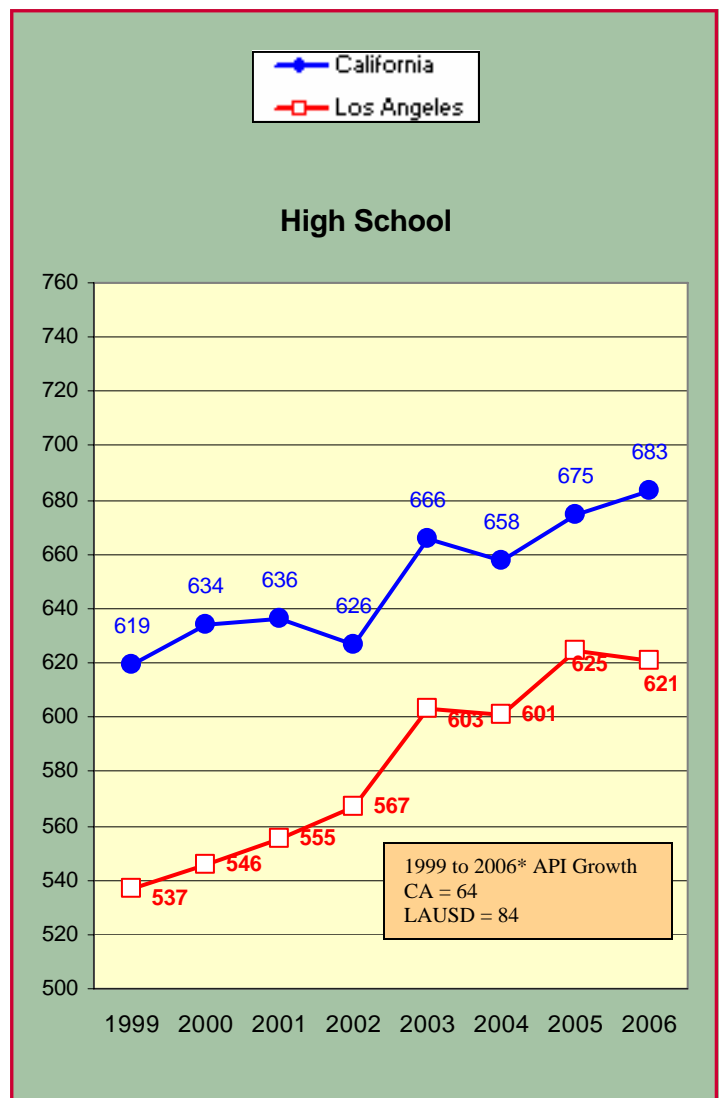
Goals:

The fundamental goal of high schools is to enable all students to acquire the knowledge and skills necessary to successfully compete in higher education and careers. High schools offer a wide variety of "core" courses and electives to achieve this goal. Highest priorities at the high school level are as follows:

- To ensure that all students have access to and engage in a rigorous standards-based curriculum that is culturally relevant and provides access to a wide range of course offerings along a college and career pathway.
- To ensure that English learners (ELs) and standard English learners (SELs) are proficient in academic English and achieve academic success in their classes.
- To provide a safe, secure, and respectful learning environment.
- To eliminate the achievement gap that exists between students.
- To ensure that students with disabilities receive appropriate services and instruction.
- To provide focused professional development to teachers and administrators to improve classroom practice.
- To provide meaningful opportunities for parents and community members to actively engage with their local high schools.

Growth in Student Achievement

Based on Academic Performance Index (API) scores since 1999, District senior high schools have demonstrated academic progress in recent years, both as measured against the District's previous performance and against the State as a whole. Senior high schools have improved by 84 API points between 1999 and 2006, an improvement of 15.6%, as compared to the State's overall improvement of 64 points (10.3%). The difference between the District's overall score and that of the State has decreased from 82 points in 1999 to 62 points in 2006.



School Construction Program

The New School Construction Program is a multi-year capital improvement program that is the major component of the Los Angeles Unified School District's mission to relieve overcrowding in its schools and return students to a traditional two-semester calendar. LAUSD is leading the largest single school district building program ever undertaken in the United States.

Educational Program Design

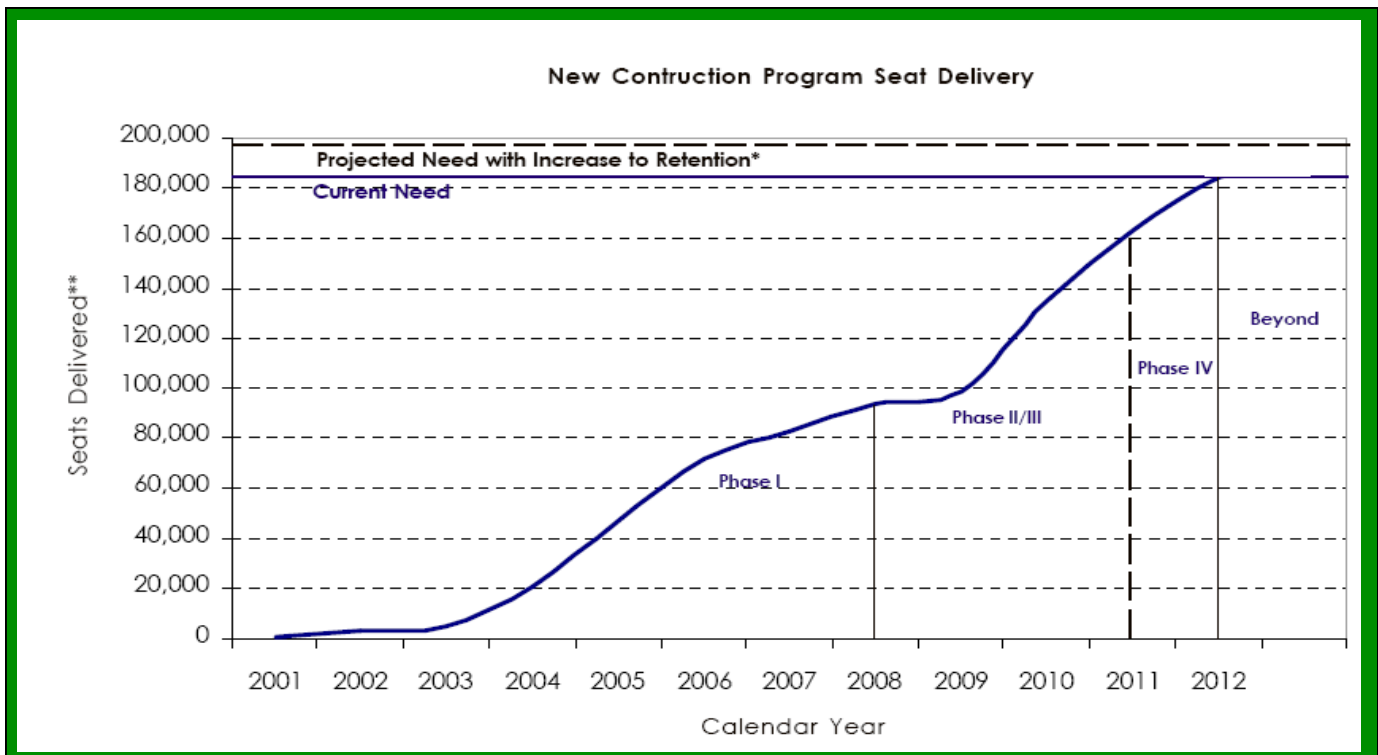
Every school is designed in collaboration with education professionals. At several points in the design process, the District holds community meetings to inform the community of the design progress and gather input. This input and feedback from the community is received, considered as an element in the design criteria, and where appropriate, incorporated into the design of the school. The end result is schools that adhere to proven educational design principles while encompassing the unique needs of the local student body and community.

13 New Schools in 2006

The Los Angeles Unified School District opened 13 new schools in during Fall of 2006. The new schools are part of LAUSD's overall plan to provide approximately 180,000 new school seats throughout the District. By the end of 2006, LAUSD will have completed 65 new schools and built more than 65,000 new classroom seats for its students.

The construction program is funded primarily by state and local bonds passed by the voters. Voters recognized the need for better and additional schools and approved the issue of bonds to address this need for additional seats.

The current building program will eliminate involuntary busing and Concept-6 (shortened school year) elementary schools, move all middle and high schools, as well as return all elementary schools to a traditional calendar. It will also implement full-day kindergarten District-wide.



13 New Schools Open On A Single Day

September 6, 2005



South East HS



Hollywood PC



South Gate New ES



State New ES



Kingsley ES



Washington New PC



John W. Mack ES



Hooper New PC



Sara Coughlin ES



Olympic PC



Jefferson New ES



Wilson New ES



Huntington Park New ES

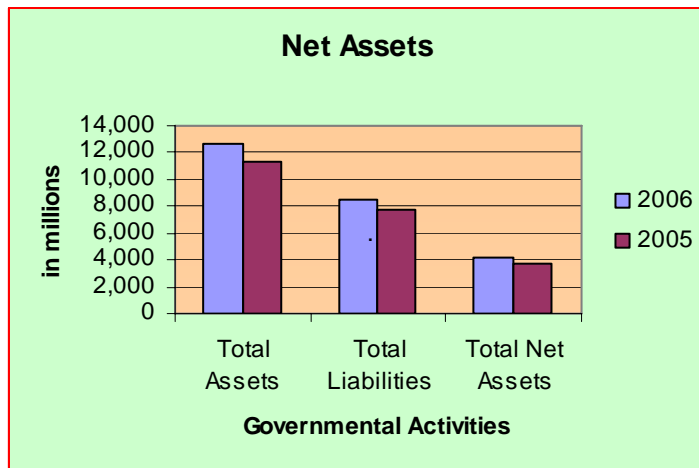
District Assets—All Funds

The total amount of net assets of LAUSD at June 30, 2006 was \$4.2 billion. Approximately 68.6% of the total were capital assets, 26.1% represented resources that were subject to external restrictions on how they may be used, and 5.3% were unrestricted and may be used to meet the District's ongoing obligations to students and creditors.

At the end of the fiscal year, the District reported positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The \$1.3 billion increase in capital assets primarily resulted from expenditures for capital outlay in the governmental fund statements.

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.



	Governmental Activities	
	2006	2005
Assets		
Current assets	\$ 4,931	\$ 4,929
Capital assets	7,798	6,459
Total assets	<u>12,729</u>	<u>11,388</u>
Liabilities		
Current liabilities	1,498	1,736
Long-term liabilities	7,053	5,936
Total liabilities	<u>8,551</u>	<u>7,672</u>
Net assets		
Invested in capital assets		
Net of related debt	2,866	2,704
Restricted for debt service	309	218
Restricted for program activities	780	484
Unrestricted	223	310
Total net assets	<u>\$ 4,178</u>	<u>\$ 3,716</u>

Bond & COP Rating

	General Obligation Bonds	Non- abatable Leases (COPs)	Abatable Leases (COPs)	Insured COPs and Bonds
Moody 's	Aa3	A1	A2	Aaa
Standard & Poor 's	AA-	A+	A+	AAA
Fitch	A+	A-	A-	AAA

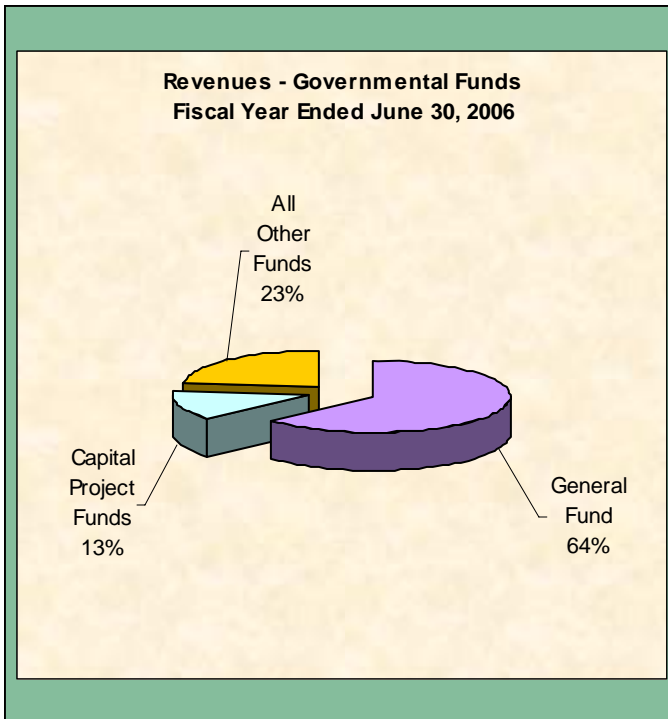
In the past several years, Los Angeles Unified School District's debt ratings have remained strong, reflecting the financial community's confidence in our fiscal policies and practices. The debt ratings are used as a guide to the financial stability of an organization and as an indication of the safety and security of debt issued by that organization. LAUSD enjoys one of the highest ratings for a large urban school district in the country.

District Revenues and Expenditures at a Glance

2005-2006 Revenues - Governmental Funds

(Dollars in Millions)

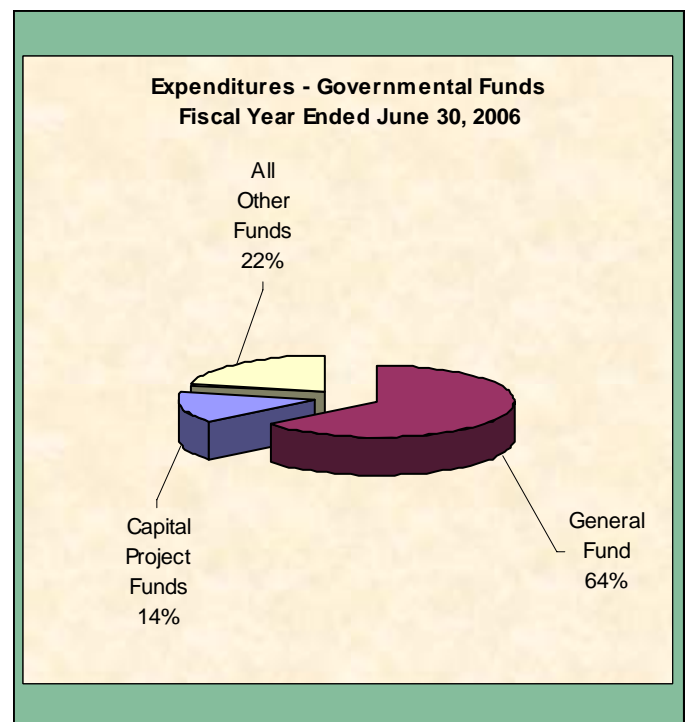
	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>All Other Funds</u>	<u>All Funds</u>
Revenue Limit	\$ 3,569	\$ -	\$ 155	\$ 3,724
Federal	889	-	261	1,150
Other State	1,915	-	504	2,419
Other Local	98	53	487	638
Other Sources	<u>93</u>	<u>1,306</u>	<u>1,017</u>	<u>2,416</u>
Total	<u>\$ 6,564</u>	<u>\$ 1,359</u>	<u>\$ 2,424</u>	<u>\$ 10,347</u>



2005-2006 Expenditures - Governmental Funds

(Dollars in Millions)

	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>All Other Funds</u>	<u>All Funds</u>
Certificate Salaries	\$ 3,051	\$ -	\$ 136	\$ 3,187
Classified Salaries	898	52	149	1,099
Employee Benefits	1,292	17	109	1,418
Books and Supplies	436	11	120	567
Services and Other Operating	617	46	28	691
Capital Outlay	63	1,054	416	1,533
Other Outgo and Uses	<u>124</u>	<u>209</u>	<u>1,264</u>	<u>1,597</u>
Total	<u>\$ 6,481</u>	<u>\$ 1,389</u>	<u>\$ 2,222</u>	<u>\$ 10,092</u>



Public Schools are funded through a group of specific funds from federal, state, and local sources. Each fund has a designated purpose. The General Fund has the largest budget and supports the majority of instructional programs and general operations.

Where Did the General Fund Money Come From?

Revenue Limit Sources

Like other California school districts, LAUSD receives basic funding called revenue limit sources as the core of our general fund unrestricted funding. This money is used to fund the daily general operation of the schools, local districts and the central office. The amount of the revenue limit sources received by the District is based on the average daily attendance of our students multiplied by a rate provided by the state.

The two funding components of the revenue limit resources include state aid and local property taxes, and there is an inverse relationship between them. The higher the District receives in property taxes, the lower the District receives in state aid. In Fiscal Year 2005-2006, the district received \$2,947.0 million in state aid and \$777.6 million in property taxes.

Federal Revenues

The federal government provides funding for many restricted programs such as Special Education, Vocational Education, No Child Left Behind/IASA, Safe and Drug Free Schools, Workforce Investment Act and other programs.

Other State Revenues

In addition to the unrestricted revenue limit funding, the state also provides for other funding. Some of the additional state unrestricted funds include year round incentive, class size reduction for grades K-3, class size reduction for grade 9, mandated costs reimbursements, lottery revenue and others. Additional restricted state funds include Special Education, Regional Occupation Center/Program, Gifted and Talented, Home-to-School Transportation, School Improvement, Economic Impact Aid, Special Education Transportation, Instructional

Materials, Staff Development, Tenth Grade Counseling, Educational Technology and others.

Other Local Revenues

Other local revenues received by the District include interest income, fees and contracts and others.

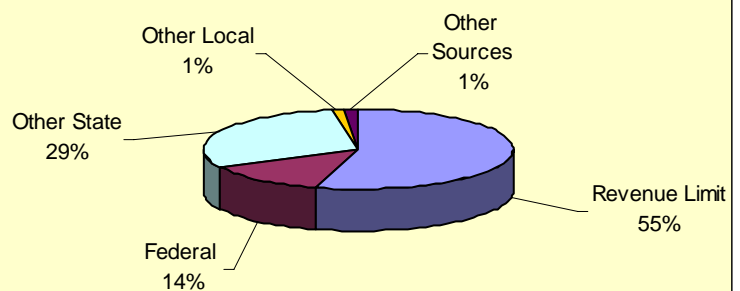
Other Financing Sources

Other financing sources include interfund transfers, proceeds from certifications of participation and proceeds from capital leases.

2005-2006 General Fund Revenues

	in millions
Revenue Limit	\$ 3,569
Federal	889
Other State	1,915
Other Local	98
Other Sources	93
Total	\$ 6,564

**General Fund Revenues
Fiscal Year Ended June 30, 2006**



How was the General Fund Money Spent?

Certificated Salaries

Certificated salaries are salaries for positions that require a credential or permit issued by the Commission on Teacher Credentialing. This category includes teachers' salaries, certificated pupil support salaries such as librarian and psychologists, certificated administrators and other certificated personnel.

Classified Salaries

Classified salaries are salaries for services that do not require a credential or permit issued by the Commission on Teacher Credentialing. This category includes instructional aides, bus drivers, food service workers, maintenance workers, custodians, school office support, secretaries, accountants, programmers, and others.

Employee Benefits

Employee Benefits are the District's contributions to retirement plans such as State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS). Other costs include expenditures for the federal Social Security system, health and welfare benefits, state unemployment insurance and workers' compensation insurance.

Books and Supplies

Books and Supplies include expenditures for classroom instructional materials designed for use by pupils and their teachers as the basic curriculum such as textbooks. This category also includes reference books, library books, classroom supplies, food services supplies, custodial supplies, maintenance supplies, supplies for operations, office supplies and others.

Services and Other Operating Expenditures

Services and Other Operating Expenditures include services, rentals, leases, maintenance contracts, travel and conference, insur-

ance, utilities, legal, audit fees, and other related expenditures.

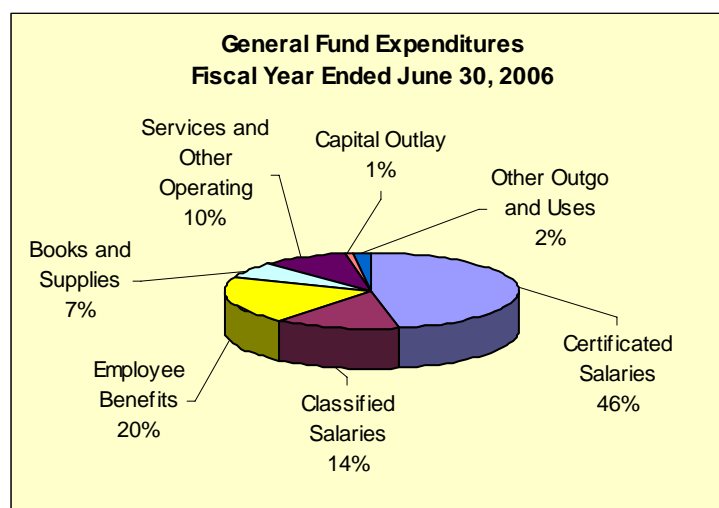
Capital Outlay

Capital Outlay includes expenditures for land and land improvements, buildings and improvement of buildings, new libraries, and equipment such as computers systems and playground equipment.

Other Outgo and Uses

Other Outgo includes servicing the debt of the District, including issuance costs and payments of both principal and interest. It is used to record long-term debt service, tax and revenue anticipation notes (TRANS), bonds and certificates of participation (COPs). Also included in this category are interfund transfers and other financing uses.

	in millions
Certificated Salaries	\$ 3,051
Classified Salaries	898
Employee Benefits	1,292
Books and Supplies	436
Services and Other Operating	617
Capital Outlay	63
Other Outgo and Uses	124
Total	\$ 6,481



District Goals and Functions

Instructional Goals

Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom or in another location, such as a home or hospital. It may also be provided through some other approved medium, such as computers and television.

General Education

General Education includes educational programs that are designed to serve the vast majority of the public school student population in traditional settings. This includes a group of activities and/or services that provides students in kindergarten through grade 12 (K-12) with learning experiences that prepare them for roles as citizens, family members, and employable workers. This education refers to basic skill areas that emphasize literacy, numeracy, and knowledge in languages, mathematics, sciences, history and related social studies, arts, and other subject areas, including vocational and technical education.

Special Education

Special Education are activities and/or services to students with exceptional needs who are assigned individualized education programs (IEPs). The activities and/or services in the IEPs are designed for students with exceptional mental or physical needs and incorporate distinctive techniques, materials, and arrangements to suit their learning needs.

Other Instruction

Other instructional program include regional occupation programs/centers, non-agency education and others.

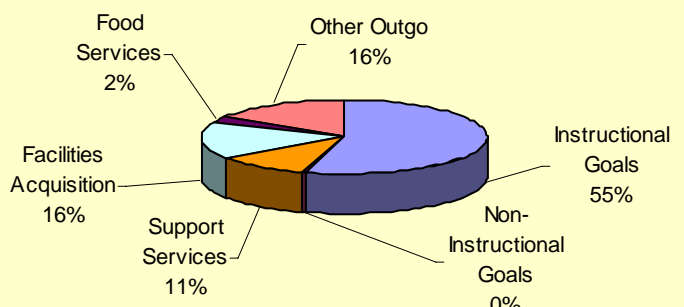
Community Services

Community Services are activities connected with providing community services to community participants other than students. These include activities authorized by the Community Recreation Act and the Civic Center Act. Examples of this function would be the operation of a community swimming pool or a recreation program.

Expenditures and Other Uses by Goal and Function Governmental Fund Types Fiscal Year Ended June 30, 2006

	(in millions)
Instructional Goals	
General Education	\$ 4,146
Special Education	1,253
Others	93
Non-Instructional Goals	
Community Services	27
Child Care Services	4
Support Services	1,083
Facilities Acquisition	1,635
Food Services	242
Other Outgo	1,610
Total Expenditures	\$ 10,093

2005-2006 Expenditures and Other Uses by Goal and Function Governmental Fund Types



District Goals and Functions (continued)

Child Care Services

Child care services are activities and/or services pertaining to the operation of programs for the care of children in residential day schools or child care and development programs that are not part of, or directly related to the District's instructional goals.

Support Services

Support services include guidance and counseling services, psychological services, attendance and social work services, pupil testing services, pupil transportation, general administration, data processing services, and plant and maintenance operations.

Facilities Acquisition

Facilities acquisition and construction are activities related to capital projects, such as acquiring land and buildings, remodeling buildings, and improving sites.

Food Services

Food Services are activities concerned with providing food to students in a school or local educational agency. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.

Other Outgo

Other Outgo includes servicing the debt of the District, including issuance costs and payments of both principal and interest. It is used to record long-term debt service, tax and revenue anticipation notes (TRANS), bonds and certificates of participation (COPs). Also included in this category are interfund transfers and other financing uses.



Savings for Taxpayers

On October 26, 2006, the District successfully sold \$574.905 million of 2006 General Obligation Refunding Bonds, Series B to refund a portion of Measure K and Proposition BB Bonds, the fifth successful refunding of District GO bonds since 2002. The bonds carried high investment grade ratings of Aa3 and AA- by Moody's Investor Service and Standard and Poors' Ratings Services, respectively. The refunding provides District's taxpayers with the benefit of lower debt service costs. The combined savings from all the refundings total \$95.5 million, which translates into a reduction in the tax rate of \$25.49 per \$100,000 of assessed valuation.

Los Angeles Unified School District

Administrative Office
333 South Beaudry Avenue
Los Angeles, CA 90017
Tel. (213) 241-1000
Website: <http://www.lausd.k12.ca.us>



We would like to acknowledge the following individuals for the development of this report:

David L. Brewer III, Superintendent
Charles A. Burbridge, Chief Financial Officer
Betty T. Ng, Controller
Timothy Rosnick, Director of Accounting
Marilyn Guerrero, Acting Administrative Services Manager
Andrea Capati, Administrative Analyst
Claudette Butler, Senior Office Technician

For questions, comments or suggestions regarding this report or any other financial matter pertaining to LAUSD, contact the Office of the Chief Financial Officer at (213)-241-7888.