

Los Angeles Unified School
District
Los Angeles, California



Comprehensive Annual Financial Report

*Fiscal Year Ended
June 30, 2005*



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

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005**

**MR. ROY ROMER
SUPERINTENDENT OF SCHOOLS**

**MR. DAN M. ISAACS
CHIEF OPERATING OFFICER**

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

**MS. BETTY T. NG
CONTROLLER
(EFFECTIVE OCTOBER 3, 2005)**

**MR. RICHARD J. KNOTT
CONTROLLER
(RETIRED EFFECTIVE DECEMBER 15, 2005)**



**PREPARED BY
GENERAL ACCOUNTING BRANCH
ACCOUNTING AND DISBURSEMENTS DIVISION**

**333 SOUTH BEAUDRY AVENUE
LOS ANGELES, CALIFORNIA 90017**

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INTRODUCTORY SECTION



Los Angeles Unified School District

Accounting and Disbursements Division

ROY ROMER
Superintendent of Schools

CHARLES A. BURBRIDGE
Chief Financial Officer

BETTY T. NG
Controller

January 19, 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, 2005, 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 multiyear 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 704 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 432 elementary, 74 middle/junior high, 53 senior high, 59 options schools, eight multi-level schools, 18 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, 26 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, 2005, the District employed 45,647 certificated, 32,669 classified, and 27,041 non-regular employees. Enrollment as of October 2005 was 698,092 students in K-12 schools, 138,209 students in adult schools and centers, and 10,947 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 2005-2006 school and fiscal year began, the State's economy appeared to be recovering with increasing vigor from the economic recession of the past several years. State tax receipts for 2004-2005 and 2005-2006 were anticipated to be some \$2.4 billion higher than estimated in the Governor's January 2005 budget proposal, and 2003-2004 ending balances were projected to be nearly \$3.8 billion above the level projected at that time, for a total of \$6.2 billion in increased State resources available for the 2005-2006 fiscal year.

The statewide education budget, however, benefited only minimally from the unexpectedly high level of available resources. The 2005-2006 State Budget Act, adopted by the Legislature on July 7, 2005 and signed by the Governor four days later, provides K-12 education funding of \$740.9 million more than the Proposition 98 minimum. This is some \$3 billion less than would have been allocated had the Governor utilized the increased revenues and balances in accordance with the budget-balancing "deal" struck with the education community prior to adoption of the 2004-2005 State Budget. The result for this District is at least \$300 million in unrealized 2005-2006 State revenues.

Based on analysis by the politically neutral Legislative Analyst's Office (LAO), utilizing the additional revenues and balances in balancing the 2005-2006 State Budget will not solve the State's long-term financial issues. The LAO, in evaluating the 2005-2006 State Budget Act, states in its publication, *Major Features of the 2005 California Budget*, that "even if all of the savings in the (Governor's) plan are fully achieved, we believe that current-law expenditures will exceed projected revenues by around \$6.1 billion in 2006-2007." The LAO, which did not analyze the longer term implications of the 2005-2006 State Budget Act, has repeatedly warned that the severity of the State's structural financial imbalance precludes the possibility that the State can "grow" its way out of the deficit.

K-12 education is, of course, heavily dependent on State funding. The 2005-2006 State Budget Act continued to include a Base Revenue Limit deficit factor, reduced from 2.14% in 2004-2005 to .909% in 2005-2006. The State Budget does fully fund the statutory Cost of Living Adjustment (COLA) at 4.23%, fully funds enrollment growth, and retains the categorical flexibility provisions introduced in 2004-2005.

On the expenditure side of the budget, the State has restored the 3% requirement for routine repair and maintenance, which had been decreased to 2% in 2003-2004 and 2004-2005. The State has also restored the mandated Reserve for Economic Uncertainties to the statutory level (in the case of the Los Angeles Unified School District, 1% of the total General Fund, increased from the 0.5% authorized for 2003-2004 and 2004-2005). A requirement that local school districts assume responsibility for a statutory \$469 million payment to the State Teachers' Retirement System, which had been recommended in the Governor's January and May budget documents, was eliminated from the State Budget Act prior to passage by the Legislature, enabling the District to avoid more than \$50 million in potential additional General Fund costs.

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.

The purpose of the issuance of the Bonds is to provide needed health and safety improvements to more than 800 deteriorating school buildings and 15,000 classrooms, including upgrading electrical wiring and plumbing; repairing decaying roofs and walls; earthquake retrofitting and asbestos removal; providing infrastructure for computer technology and science laboratories; providing air-conditioning for classrooms; enhancing student safety with lighting, fences and

security systems; funding and/or providing matching funds for construction and additions at several schools and the building of 100 new schools to reduce class size and decrease busing. The Board also established a Blue Ribbon Citizens' Oversight Committee to ensure that the proceeds of the bond issues are used for the purposes stated in the resolution which placed the Proposition BB on the April 1997 ballot. The Committee's responsibilities include the following: 1) meeting at least quarterly to review expenditures of the bond proceeds; 2) reporting findings quarterly to the Board and to the public; 3) recommending improvements to District processes and procedures as they relate to scheduling, planning and completion of projects and 4) reporting immediately to the Board any substantial expenditures of bond proceeds in conflict with the purposes approved by the Board and the contracts established with the schools. The Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39.

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

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

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'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. The District established a separate fund, Measure K Building Fund, to account for the income and expenditures of the bond proceeds. The District currently anticipates the issuance of three additional series over the next three years.

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

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

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

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

VISTA HERMOSA (FORMERLY THE "BELMONT LEARNING COMPLEX")

In 1997, the District commenced the development of the Belmont Learning Complex, a large-scale urban high school complex that was envisioned to include a mixed-use commercial component. In January 2000, due to environmental concerns, the District's Board of Education directed that construction on the Belmont Learning Complex be halted and the project cancelled. The Board also directed the staff to prepare recommendations for the future use of the site and the partially constructed facility and a plan for the housing of the students who were scheduled to attend a completed Belmont facility. Subsequently, the Board requested and received proposals

for the use of the property, including completion of the school. These proposals were evaluated by an independent panel of environmental, construction finance and insurance experts, who together with the Superintendent identified the preferred bidder. The Board approved the recommendations made by the expert panel and the Superintendent subject to satisfactory negotiations and implementation of various oversight procedures. Due to the discovery of an earthquake fault zone under the site, the District decided on December 4, 2002 not to continue efforts to complete the Belmont Learning Complex on its original design. On May 22, 2003, the District approved the "Vista Hermosa" option to complete the Belmont Learning Complex. Construction will proceed to build a park and a new high school with 2,835 student seats in an extremely overcrowded area. Two buildings on top of the seismic fault will be demolished.

STATE SCHOOL FACILITIES BONDS

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

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

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

Proposition 55 – Proposition 55 was passed and approved in March 2004 and provided an additional \$12.3 billion in general obligation bonds for the construction and renovation of K-12 school facilities and higher education facilities. Of the \$12.3 billion provided by Proposition 55, \$10 billion will be utilized by school districts to address overcrowding, accommodate future

enrollment growth, renovate and modernize older school buildings and allow participation in community-related joint-use projects.

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

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

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

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

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, debt service, other outgo, direct support/indirect costs, and operating transfers out. 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 was overspent during the 2004-2005 fiscal year as a result of the District's recognizing claims liabilities at full present value, and utilizing more conservative assumptions about the future cost and the interest rate to be used in calculating the present value of future claims. It is the District's intention that future claims will be fully funded over a 30-year period.

Encumbrance accounting is utilized to assure 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 staff in making pool and specific investments for the District. At June 30, 2005, the District's cash in the total county pool was \$2,927.0 million.

The District also maintains some cash deposits with various banking institutions. At June 30, 2005, cash deposits including imprest funds in schools and offices were \$32.0 million. These deposits are either covered by federal depository insurance or collateralized at the rate of 110% of the deposits.

The District also had \$260.9 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 2004-2005 was \$74.7 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 (\$750 million above a \$0.5 million self-insurance retention for 2004-2005) 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 \$35 million above a \$3 million self-insurance retention for 2004-2005) 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 I on pages 44 and 45 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 and excess liability coverage with limits of \$102 million have been underwritten by three major insurance carriers. Savings to the District over the life of the construction program are estimated to be approximately \$30 million.

The District 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, 2004. 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 2004-2005 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.

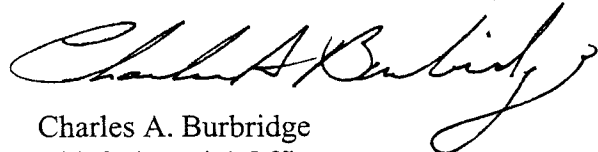
ACKNOWLEDGMENTS

We wish to express our appreciation to Kenji K. Furuya, Director of General Accounting, Melba Page, Acting Chief Accountant, M. Teresa Rojas, Chief Accountant, Rouelli Chow, Acting Fiscal Reports Specialist, and the staff of the General Accounting Branch, and in particular the staff of the Financial Reporting Section, for their work in preparing this report.


Respectfully submitted,



Roy Romer
Superintendent of Schools



Charles A. Burbridge
Chief Financial Officer



Betty T. Ng
Controller

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, 2004

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

JOSE HUIZAR

JULIE KORENSTEIN

**MARGUERITE
POINDEXTER LAMOTTE**

MIKE LANSING

JON LAURITZEN

DAVID TOKOFSKY

PRINCIPAL SCHOOL DISTRICT OFFICIALS

Roy Romer
Superintendent of Schools

Dan M. Isaacs
Chief Operating Officer

Charles A. Burbridge
Chief Financial Officer

Betty T. Ng
Controller
(Effective October 3, 2005)

Richard J. Knott
Controller
(Retired effective December 15, 2005)

LOCAL DISTRICT SUPERINTENDENTS

As of June 30, 2005

Richard Alonzo

Jean Brown

Sharon Curry

Rowena Lagrosa

Myrna Rivera

Sylvia G. Rousseau

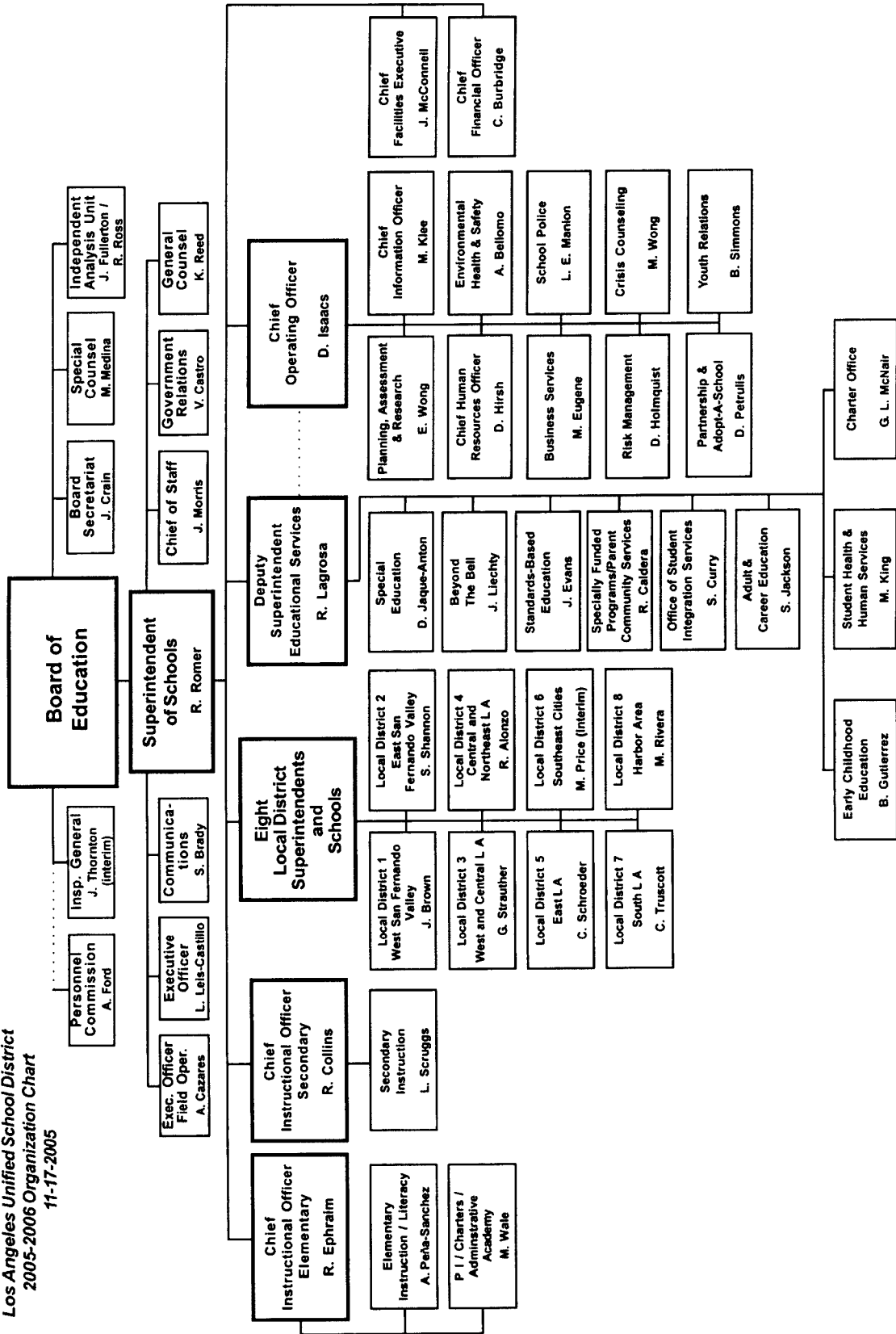
Sue Shannon

Dale W. Vigil

Los Angeles Unified School District

2005-2006 Organization of Central Support System

Los Angeles Unified School District
2005-2006 Organization Chart
11-17-2005



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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District as of June 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 14 and the schedules of funding progress on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information listed in the supplementary section and the information on pages 145 to 152 in the state and federal compliance information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the introductory section, the statistical section, and pages 153 and 154 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

December 22, 2005

Management's Discussion and Analysis

As management of the Los Angeles Unified School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - xi of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

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

Overview of the Basic Financial Statements

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

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

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

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

The District maintains 21 individual governmental funds. In the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances, separate columns are presented for general fund, District bonds fund and all others. Individual account data for each of the District bonds and all other nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

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

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

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

functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

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

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

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

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-57 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 59-78 of this report.

Government-wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3.7 billion at the close of the most recent year.

By far the largest portion of the District's net assets (72.7 percent) reflects its investments in capital assets (e.g., land, buildings and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets (in thousands)

As of June 30, 2005 and 2004

Governmental Activities

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

Approximately 18.9 percent of the District's net assets (\$701.8 million) represent resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$310.0 million) may be used to meet the District's ongoing obligations to students and creditors.

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

The \$1.0 billion decrease in current assets was primarily a result of liquidation of various investments, with the proceeds going towards funding construction and other school improvement projects. These changes resulted in a corresponding increase in the capital assets of \$1.1 billion.

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

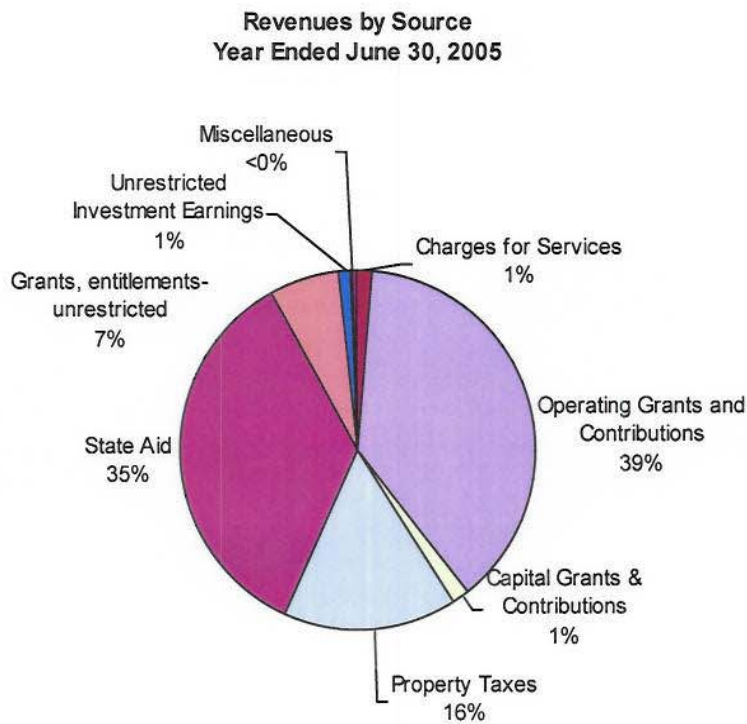
Changes in Net Assets (in thousands)

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

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

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

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



Financial Analysis of the Government's Funds

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

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

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

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$253.0 million, while the total fund balance reached \$349.6 million. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 4.1 percent of the total general fund expenditures, while the total fund balance represents 5.7 percent of that same amount.

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

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

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

The fund balance decreased during the current year for the above-mentioned funds due to spending for continuing school construction and renovation projects.

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

At the end of the year, the District's proprietary funds, considered as *Internal Service Funds* have negative unrestricted net assets of \$271.3 million. The net decrease of \$133.0 million in the current year is largely the result of rising costs of workers' compensation self-insurance claims.

General Fund Budgetary Highlights

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

The District closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year, utilizing the State-mandated first and second interim financial reports, and at year end utilizing the actual revenue and expenditure data for the past fiscal year.

In order to address the sufficiency of balances, the District has undertaken two significant steps. First, a Budget and Finance Policy adopted by the Board for implementation with the 2005-06 fiscal year calls for the District to strive for a balancing of ongoing expenditures with ongoing revenues, as a means of ensuring a stable or growing ending balance. And secondly, the District has begun in 2005-06 to indicate in its budget documents both an "authorized" expenditure level, indicating the gross amount available for expenditure, and an "estimated" expenditure level, indicating the expected expenditure level, given historic trends and known revisions to the prior year expenditure plan.

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

The \$344.5 million variance in revenues between adjusted budget and actual primarily occurred because multi-year categorical program revenues which were budgeted in their entirety but earned only to the extent that expenditure occurred. The District has begun building its budget with both "authorized" and "estimated" revenue amounts which will enable staff to recognize the amount of unrealized revenue that is likely to occur as a result of budgeting full revenue for multi-year grants.

The \$168.1 million variance in books and supplies expenditures between adjusted budget and actual occurred primarily because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of this results from the factor described in the revenue

variance – the full budgeting of expenditures in the first year of a multi-year grant. As with revenues, the District's budget now includes "authorized" and "estimated" expenditure amounts; the difference between them is the lower expenditures estimated.

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

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2005 amounts to \$6.5 billion (net of accumulated depreciation), a 20.2% increase from the prior year. This investment in capital assets includes sites, improvement of sites, buildings and improvements, equipment and construction in progress.

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

- Continuing construction of additional school buildings as well as school modernization projects throughout the District. Construction in progress as of the close of the fiscal year had reached \$2.6 billion.
- Various building additions and modernizations were completed at a cost of \$372.1 million.
- A total of 32 new schools were completed in 2005 and will be opening their doors during the 2005-2006 school year to new students. This is the District's largest number of new schools to open in a single year.

Capital Assets (net of accumulated depreciation)

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

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

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

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of \$5.9 billion. Of this amount, \$4.5 billion comprises debt to be repaid by voter-approved property taxes and not the general fund of the District.

Outstanding Obligations

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

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
General Obligation Bonds	\$4,479,633	\$4,328,210
State School Building Aid Fund	1,219	1,602
Liability - compensated absences	76,066	77,313
Certificates of Participation (COPs)	615,396	764,960
Children's Center Facilities Loan	792	792
Capital leases	9,951	13,471
CA Energy Commission Loan	1,379	-
Self-insurance claims	<u>751,172</u>	<u>568,732</u>
Total	<u>\$5,935,608</u>	<u>\$5,755,080</u>

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

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

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

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

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

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

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

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

State of California and Los Angeles Unified School District Fiscal Outlook

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

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

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

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

For the 2005-2006 fiscal year, the District has balanced its budget through a combination of enhanced revenues and budget reductions. The District's 2005-2006 spending plan reflects a projected General Fund ending balance of \$358.6 million, which exceeds the beginning balance by \$9 million. The District has continued to implement efforts to build a budget that is both fiscally and structurally balanced.

In June 2004, for the first time in the District's history, the Board adopted a Budget and Finance Policy (Policy) which enumerates a wide variety of principles to be followed in future District budgets. Among its precepts, the Policy would require the District to begin the lengthy process of accumulating reserves to cover costs of outstanding liabilities such as long-term commitments for employee health care, liability self-insurance and workers' compensation, as well as an emergency reserve in excess of the required Reserve for Economic Uncertainties and a reserve to cover costs of replacing equipment as it becomes damaged or obsolete. It would also call for a balancing of ongoing costs to ongoing revenues (so-called "structural balance") and for the District to make efforts to maximize its revenues.

While the Budget and Finance Policy became the District's official operating guide with the beginning of the 2005-2006 fiscal year, it will not be possible to implement all of its precepts immediately. However, many of the Policy's recommendations have been implemented. Among these are: a Revenue Enhancement Unit, started prior to the beginning of the 2004-2005 fiscal year, to seek means of maximizing District revenue; improvements to the budget document to enhance understanding and clarity; and the establishment of an "Estimated Expenditures" column and a Reserve for Anticipated Ending Balances for each District Defined Program and Fund in the budget, to more closely align the budget with the actual level of anticipated expenditures.

Measure Y Victory

On November 8, 2005, ballot Measure Y, authorizing the District to issue up to \$3.985 billion of general obligation bonds, was approved by 65.68% of voters. This marks a commitment by voters to improve the educational environment in the Los Angeles area. The proceeds will be used to fulfill the goal to return all schools to a two-semester calendar, end involuntary busing, focus on critically needed schools for our youngest students and ensure that every community receives its fair share of new schools and classrooms. Measure Y will also continue repair and upgrade of aging and deteriorating classrooms and restrooms, build new neighborhood schools, upgrade fire and earthquake safety and emergency response equipment and eliminate asbestos and lead paint hazards.

Requests for Information

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

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

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

See accompanying notes to basic financial statements.

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

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

General Revenues:

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

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

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005 (in thousands)

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

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005 (in thousands)**

Total fund balances - governmental funds	\$ 2,550,228
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$8,951,127 and the accumulated depreciation is \$2,491,969.	6,459,158
Property taxes receivable will be collected this year, but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds.	156,065
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The assets and liabilities of the internal service fund are included within governmental activities.	(271,282)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(5,182,943)
Other deferred charges not reflected in fund financials.	<u>4,858</u>
Total net assets - governmental activities	\$ <u>3,716,084</u>

See accompanying notes to basic financial statements.

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

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

Total net changes in fund balances - governmental funds \$ (1,051,943)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,398,244) exceeds depreciation (\$311,439) and loss on equipment disposal (\$47) in the period. 1,086,758

Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (1,999)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 110,581

Proceeds of new debt are reported as other financing sources in the governmental funds, but these receipts are considered long-term liabilities in the statement of net assets, including those used to refund older bonds and COPs, net of premium amortization. (652,575)

Payments to escrow agents for refunded bonds and COPs are reported as other financing uses in the governmental funds, but these payments include defeasement of long-term liabilities in the statement of net assets. 568,084

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year. 18,490

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave earned exceeded the amounts used. (355)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (18,713)

An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities. (132,954)

Changes in net assets of governmental activities \$ (74,626)

See accompanying notes to basic financial statements.

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

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

* Over (Under)

See accompanying notes to basic financial statements.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
June 30, 2005 (in thousands)**

ASSETS

Cash in county treasury, banks and on hand	\$ 189,881
Investments	297,051
Accounts receivable - net	1,229
Accrued interest and dividends receivable	3,644
Prepaid expenses	16,390
Due from other funds	38,497
TOTAL ASSETS	<u>546,692</u>

LIABILITIES

Current:

Vouchers and accounts payable	26,268
Accrued payroll	733
Other payables	823
Due to other funds	38,978
Estimated liability for self-insurance claims	236,143

Noncurrent:

Estimated liability for self-insurance claims	<u>515,029</u>
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TOTAL LIABILITIES**817,974****TOTAL NET DEFICIT - UNRESTRICTED****\$ (271,282)**

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET DEFICIT
PROPRIETARY FUNDS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2005 (in thousands)

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

	<u>PENSION TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS		
Cash in county treasury, banks and on hand	\$ 18,652	\$ 20,926
Investments	415	-
Due from Primary Government	5	-
Accrued interest and dividends receivable	<u>111</u>	<u>-</u>
TOTAL ASSETS	<u>19,183</u>	<u>20,926</u>
LIABILITIES		
Other payables	18,721	20,926
Due to Primary Government	<u>17</u>	<u>-</u>
TOTAL LIABILITIES	<u>18,738</u>	<u>20,926</u>
TOTAL NET ASSETS - held in trust	<u>\$ 445</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
For the Year Ended June 30, 2005 (in thousands)**

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

See accompanying notes to basic financial statements.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

4) Financial Statement Presentation

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

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

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

Governmental Funds – The District has the following major governmental funds for the fiscal year 2004-2005:

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

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

Other Governmental Funds – The District has the following nonmajor governmental funds:

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

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

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources related to the acquisition or construction of major capital facilities and equipment other than those financed by the General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, State School Building Lease-Purchase, Special Reserve, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Special Reserve – Community Redevelopment Agency, Capital Facilities Account, County School Facilities, County School Facilities – Prop 47 and County School Facilities – Prop 55. The District Bond Funds (Bond Proceeds, Measure K and Measure R) are reported separately as major funds in fiscal year 2004-2005.

Proprietary Funds – The District has the following Proprietary Funds:

Internal Service Funds - Internal Service Funds are used to account for all financial resources intended to provide self-insurance services to other operating funds of the District on a cost reimbursement basis. The District maintains the following Internal Service Funds: Health and Welfare Benefits, Workers’ Compensation Self-Insurance and Liability Self-Insurance. The Health and Welfare Benefits Fund was established in 1982 to pay for claims, administrative cost, insurance premiums and related expenditures; the Workers’ Compensation Self-Insurance Fund was established in 1977 to pay for claims, excess insurance coverage, administrative costs and related expenditures. The total of these funds is presented in a single column on pages 22-23.

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

excess of current claims payments were applied towards the liability to help reduce the deficit. For fiscal year 2005-2006, the Workers' Compensation claims are budgeted at a level designed to prevent the deficit from increasing.

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

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

Fiduciary Funds – The District has the following Fiduciary Funds:

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

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

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

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

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

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

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

Formal budgetary integration is employed as a management control device during the year for all budgeted Funds. The District employs budgetary control by minor (sub) object and by individual program accounts. Expenditures may not legally exceed budgeted appropriations by major object level as follows: Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenditures, Capital Outlay, Debt Service, Operating Transfers Out and Other Financing Uses. During the 2004-2005 fiscal year, the Workers' Compensation Self-Insurance Fund expenditures exceeded revenues by \$114.1 million. The resulting sharp increase in the deficit is attributable to the District's having adopted more conservative assumptions about the future cost of claims and the

interest rate used in calculating the present value of future claims. The increase in the estimated liability was reflected in the District's 2005-2006 budget, which recognized an accumulated unfunded deficit of \$288.6 million in the Workers' Compensation Self-Insurance Fund. Notwithstanding the unfunded deficit, the Workers' Compensation Self-insurance fund does not have a cash flow problem. The fund generated \$46.8 million in cash flows from operating activities and has approximately \$86 million and \$297 million in cash and investments as of June 30, 2005, respectively.

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

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

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

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

- 8) Short-Term Interfund Receivables/Payables – During the course of operations, numerous transactions occur between individual Funds for goods provided, services rendered or support to other Funds. These receivables or payables are classified as "Due from other funds" or "Due to other funds" on the fund financial statements. Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.
- 9) Inventories – Inventories consist of expendable materials and supplies held for consumption, which are valued at cost, using the average cost method. Except for food and cafeteria supplies, which are expended when received, inventories are recorded as expenditures when shipped to schools and offices. Balances of inventory accounts are offset by corresponding reservations of fund balance, which indicate that these amounts are not available for appropriation and expenditure even though they are a component of net current assets.
- 10) Capital Assets – Capital assets, which include sites, improvement of sites, buildings and improvements, equipment and construction in progress are reported in the applicable governmental activities in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District maintains a capitalization threshold of \$25,000.

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

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

<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

- 11) Contracts Payable – Contracts payable include only the portion applicable to work completed and unpaid as of June 30, 2005. All significant incomplete portions of contracts are reported as reserved fund balance.
- 12) Compensated Absences – All vacation leave is accrued when incurred in the government-wide statements. A liability is reported in governmental funds only for vested or accumulated vacation leave of employees who have separated from the District as of June 30 and whose vacation benefits are payable within 60 days from the end of the fiscal year. The District, as a practice, does not accrue a liability for unused sick leave since accumulated sick leave is not a vested benefit. Employees who retire after January 1, 1999 who are members of PERS may use accumulated sick leave to increase their service years in the calculation of retirement benefits.

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

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

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

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

- 14) Revenue Limit Sources – The revenue limit is the basic financial support for District activities. There are two sources of revenue limit income: local property taxes (\$839.0 million) and State aid (\$2,736.3 million).
- 15) Property Taxes – All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100% of full cash or market value (with limited exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions. The total 2004-

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

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

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

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

- 16) Accounting Change – GASB Statement No. 40 – On July 1, 2004, the District adopted GASB Statement No. 40, Deposit and Risk Investment Disclosures, an amendment of GASB Statement No. 3. GASB Statement No. 40 requires specific disclosures if applicable for credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It also modifies GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Purchase Agreements, related to required disclosures of custodial credit risk of deposits and investments.
- 17) Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses in the accompanying basic financial statements. Actual results could differ from those estimates.

NOTE B – TAX AND REVENUE ANTICIPATION NOTES

Tax and Revenue Anticipation Notes (TRANs) are a short-term debt instruments used to finance temporary cash flow deficits in anticipation of receiving taxes and other revenues. On September 1, 2004, the District issued \$500.0 million of 2004-2005 Tax and Revenue Anticipation Notes (TRANs) at a net premium of \$11.2 million to yield approximately 1.498% on \$158.0 million Series A-1, 1.505% on \$292.0 million Series A-2 and 1.495% on \$50.0 million Series A-3. These notes were retired on their due date of September 1, 2005.

On October 12, 2005, the District issued a total of \$410.0 million of 2005-2006 TRANs with an overall weighted true interest cost of 2.90017% or total premium of \$5.6 million. The principal and interest on the notes are payable at maturity on October 18, 2006. As security for the payment of principal and interest on the notes, the Treasurer and Tax Collector of the County of Los Angeles as the paying agent will deposit and hold in trust in a special repayment account the unrestricted revenues received by the District as follows: \$143.5 million on or before January 26, 2006; \$143.5 million on or before February 7, 2006; \$123.0 million on or before April 28, 2006; plus an amount sufficient to pay interest on the notes and any deficiency in the amount required to be transferred during any prior month, on or before June 30, 2006.

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

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

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

The accompanying governmental fund balance sheet includes reconciliation between *total fund balances – governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.” The details of the \$5,178,085 difference are as follows (in thousands):

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

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that “Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,086,758 difference are as follows (in thousands):

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

Another element of that reconciliation states that “Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.” The details of this \$110,581 difference are as follows (in thousands):

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

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

Details of proceeds of new debt principal:

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

Details of payments to escrow agents of refunded debt:

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

NOTE D – BUDGETARY APPROPRIATION AMENDMENTS

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

NOTE E – CASH AND INVESTMENTS (in thousands)

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

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

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

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

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

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

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

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

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

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

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

<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 US Government, its agencies and instrumentalities.	None	None	None
B. Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	None	None
C. Investment agreements, the provider of which is rated at one of the two highest rating categories	None	None	None
D. Money market funds	None	None	None

Interest rate risk is the risk involved with fluctuations of interest rates that may adversely affect the fair value of the investments. The County's investment guidelines limit the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2005, over 89% of District funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.2% of the County PSI Fund and other investments portfolio are tied to periodic coupon resets eliminating interest rate risk by repricing back to par value at each reset date.

As of June 30, 2005, 67% of the Workers' Compensation Fund investments have a maturity of less than one year. Workers' Compensation Fund investments are shown in the table below. The following is a table showing the credit quality and concentration of credit risk as a percentage of each portfolio's fair value at June 30, 2005:

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

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

AIG Funding Inc. Disc. C/P Cpd.	08/23/05	\$ 10,264
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Credit risk means the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, as measured by assignment of a rating by a nationally recognized statistical rating organization. This County's investment guidelines establish minimum acceptable credit ratings issued by any two nationally recognized statistical rating organizations. For a short term debt issuer, the rating must be no less than A-1 from Standard & Poor's or P1 from Moody's, while for a long-term debt issuer, the rating must be no less than A. The County PSI Fund is not rated.

Concentration of Credit Risk means the risk of loss attributed to the magnitude of an investment in a single issuer. For District funds in the county pool, the County's investment policy states that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, and its agencies and instrumentalities. In addition, no more than 10% may be invested in one money market mutual fund. As of June 30, 2005, the County did not exceed these limitations.

The following is a table showing the credit quality and concentration of credit risk as a percentage of each portfolio's fair value at June 30, 2005:

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

<u>Investments Held by Trustee</u>			
	<u>S & P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
AIG Funding Inc. Disc. C/P Cpds.	A-1	P-1	100.00%

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

NOTE F – RECEIVABLES/PAYABLES

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

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

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

Payables by Fund at June 30, 2005 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	\$ 267,832	\$ 65,347	\$ 28,425	\$ 26,268	\$ 387,872
Contracts	2,669	124,694	34,824	-	162,187
Accrued payroll*	246,644	2,461	16,560	733	266,398
Other*	<u>115,438</u>	<u>14,829</u>	<u>40,058</u>	<u>823</u>	<u>171,148</u>
Total payables	\$ <u>632,583</u>	\$ <u>207,331</u>	\$ <u>119,867</u>	\$ <u>27,824</u>	\$ <u>987,605</u>

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

NOTE G – CAPITAL ASSETS

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

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

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

Depreciation expense was charged to the following functions:

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

NOTE H – RETIREMENT PLANS

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

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

Active plan members are required to contribute 7.0% (miscellaneous) or 9.0% (safety) of their monthly salary (over \$133.33, if the member participates in Social Security) and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2004-2005 were 9.952% for miscellaneous and 41.686% for safety members. The District paid the employee's contribution of 9.0% for safety members and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2005, 2004 and 2003.

Schedule of Employer Contributions:

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

The District's contributions for all members for the fiscal years ended June 30, 2005, 2004 and 2003 were in accordance with the required contribution rates calculated by the CalPERS actuary for each year.

The most recent CalPERS actuarial valuation provides the following information:

Valuation Date:	June 30, 2003*
Actuarial Cost Method:	Individual Entry Age Normal Cost
Amortization Method:	Level Percentage of Payroll Closed
Remaining Amortization Period:	17 Years for Schools
Asset Valuation Method:	Smoothing of Market Value
Actuarial Assumptions:	
Net Investment Rate of Return ¹ :	7.75%
Projected Salary Increases:	Varies, Based on Duration of Service
Post Retirement Benefits Increase:	State 2% or 3% Depending on plans

*2004 and 2005 are not available.

¹Includes inflation at 3.0%.

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

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

- 2) California State Teachers' Retirement System (STRS) - The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax-deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2004, there were approximately 1,200 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

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

Active plan members are required to contribute 8.0% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-2005 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Contributions to STRS for fiscal years ended June 30, 2005, 2004 and 2003 are as follows:

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

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

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

	<u>DB Program</u>	<u>DBS Program</u>
Valuation Date	June 30, 2004	June 30, 2004
Actuarial Cost Method	Entry Age normal	Traditional Unit Credit
Amortization Method	Level Percent of Payroll	Not applicable
Amortization Period	Open	Not applicable
Remaining Amortization Period	Not amortizable	Not applicable
Asset Valuation Method	Expected value with 33%	Fair market value of net assets
Actuarial Assumptions:		
Net Investment Rate of Return	8.00%	8.00%
Interest on Account	6.00%	8.00%
Projected Salary Increases	4.25%	4.25%
Consumer Price Inflation	3.25%	3.25%
Post Retirement Benefits Increase	2.00% simple	Not applicable

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

Schedule of Funding Progress - Defined Benefit Program (unaudited)

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

(1) No actuarial valuation prepared for FY 2002

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

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

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

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

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

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

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

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

- 4) Health and Welfare Benefits for Retirees - In addition to the pension benefits described in this note, the District provides post employment health care benefits, in accordance with collective bargaining unit agreements and Board rules. Certificated and classified employees who retire from the District receiving a STRS/CalPERS retirement allowance (for either age or disability) are eligible to continue coverage under the District-paid hospital/medical, dental and vision benefits if they meet the following requirements:
- a. Those hired prior to March 11, 1984 must have served a minimum of five consecutive qualifying years immediately prior to retirement;
 - b. Those hired from March 11, 1984 through June 30, 1987 must have served a minimum of ten consecutive qualifying years immediately prior to retirement;
 - c. Those hired from July 1, 1987 through May 31, 1992 must have served a minimum of 15 consecutive qualifying years immediately prior to retirement, or served ten consecutive qualifying years immediately prior to retirement plus an additional previous ten years which are not consecutive.
 - d. Those hired on or after June 1, 1992 must have at least 80 years combined total of consecutive qualifying service and age.

In order to maintain coverage, the retirees must continue to receive a STRS/CalPERS retirement allowance and must enroll in those parts of Medicare for which they are eligible. As of July 1, 2005, approximately 33,645 retirees now meet these eligibility requirements.

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

Expenditures are accounted for in the Health and Welfare Benefits Fund. These expenditures consist of retirees' insurance premiums already paid to the Health Maintenance Organizations, retirees' claims reported to the District but not yet paid and an estimate for claims incurred but not yet reported to the District. Expenditures are funded currently by the various operating Funds through interfund billings. The net revenue is reported with governmental activities. The total District expenditures for health and medical benefits for retired employees during the fiscal year ended June 30, 2005 amounted to \$196,068,525.

The Governmental Accounting Standards Board (GASB) adopted Statement no. 45 in 2004, which addresses "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions (OPEB)." Along with other governmental agencies with total annual revenues of \$100 million or more, the District is scheduled to implement the GASB 45 OPEB accounting and reporting requirements beginning in Fiscal Year 2007-2008. In preparation for the implementation of this new requirement, the District engaged the services of an actuarial firm to estimate the costs and financial liabilities offered to its employees. The actuarial method used in estimating the liability is the Projected Unit

Credit Cost Method which is based on the assumption that the Actuarial Present Value (APV) of employees' expected postretirement benefits accrue ratably over their expected working careers, from hire until the date of full eligibility for postretirement medical benefits. The portion of the APV attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions used in the computation include a 6.5% discount rate and a healthcare cost trend of 7% in 2004, ultimately declining to 6% in 2014 and remaining at that level thereafter. Based on the latest available actuarial study as of July 1, 2004, the best estimate for the AAL of the District's postretirement health care program, which is substantially unfunded and not recorded in the accompanying basic financial statements at June 30, 2004, is as follows (in thousands):

All retirees	\$2,146,119
Active employees	<u>2,749,831</u>
	<u>\$4,895,950</u>

In November 2005, the District commissioned a second actuarial study to be completed in Spring 2006 using currently available data. The District has been and will continue to review these actuarial studies, in conjunction with the District's obligations under its plan, to determine what OPEB liability must be reported beginning in the 2007-2008 fiscal year.

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

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

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

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

NOTE I – RISK MANAGEMENT

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

Excess insurance has been purchased for fire loss damages, which currently provides \$750 million coverage above a \$0.5 million self-insurance retention and for general liability, which currently provides \$35 million coverage above a \$3 million self-insurance retention. The General Fund resources are used to pay for fire loss insurance and repairs for fire damage. No settlements exceeded insurance coverage in the last three (3) fiscal years ended June 30, 2005.

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

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

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

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

	<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>
<u>2004-2005</u>				
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	<u>23,041,280</u>	<u>12,084,480</u>	<u>(6,482,828)</u>	<u>28,642,932</u>
TOTAL	<u>\$568,732,518</u>	<u>\$541,517,117</u>	<u>\$(359,077,470)</u>	<u>\$751,172,165</u>
<u>2003-2004</u>				
Health and Welfare Benefits	\$ 30,660,133	\$233,598,334	\$(228,372,918)	\$ 35,885,549
Workers' Compensation	429,262,180	204,222,201	(123,678,692)	509,805,689
Liability Self-Insurance	<u>20,760,813</u>	<u>11,497,692</u>	<u>(9,217,225)</u>	<u>23,041,280</u>
TOTAL	<u>\$480,683,126</u>	<u>\$449,318,227</u>	<u>\$(361,268,835)</u>	<u>\$568,732,518</u>

NOTE J – CERTIFICATES OF PARTICIPATION, LONG-TERM CAPITAL LEASES and OPERATING LEASES

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

CERTIFICATES OF PARTICIPATION

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

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

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

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

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

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

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

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

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

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

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

On December 4, 2002, the District issued COPs 2002 Series B (Multiple Properties Project) in the amount of \$128,765,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. Principal payments are due semi-annually through 2022. This series was issued to finance the following projects: auditorium and gymnasium air-conditioning, computer and telephone equipment, school furniture and equipment, FEMA hazard mitigation, children's centers, relocatable classrooms, school police vehicles, gymnasium improvements, sports facilities, parking facilities for gardening vehicles and elementary and museum school projects.

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

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

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

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

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

On May 18, 2005, the District issued Variable Rate COPs 2005 Series A (Administration Building Project) in the amount of \$86,525,000. The 2005 A Certificates were used to refund the 2001C COPs in the amount of \$84.5 million, which resulted in a net present value savings of approximately \$9.4 million based on an assumed variable rate of 3.05% (15-year average of BMA), semi-annual interest payments, and 30/360 semi-annual compounding. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2024. The interest rate on June 30, 2005 was 2.35%.

On May 18, 2005, the District issued Variable Rate COPs 2005 Series B (Beaudry III) in the amount of \$21,340,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2031. The interest rate on June 30, 2005 was 2.25%. The 2005 B Certificates were to finance certain property improvements of the District, to fund capitalized interest and fees.

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

Of the proceeds from the refunding COPs issued in fiscal year 2004-2005, payments to the COPs escrow agent totaled \$184.0 million that refunded \$156.6 million of old COPs issues. The refundings provided resources to purchase securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments on the refunded debt. As a result, the refunded debts are considered defeased and the corresponding liabilities have been removed from the District's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$27.4 million of which \$14.4 million has been amortized during fiscal year 2004-2005. The unamortized balance of \$13.0 million is netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

Other Leasing Arrangements

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

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

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

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

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

NOTE K – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2005 (in thousands):

	<u>General Obligation Bonds*</u>	<u>State School Building Aid Fund Payable</u>	<u>Liability for Compensated Absences</u>	<u>Capital Lease Obligations/ Certificates of Participation</u>	<u>Children Center Facilities Revolving Loan</u>	<u>CA Energy Commission Loan</u>	<u>Self- Insurance Claims</u>	<u>T o t a l</u>
Balances at July 1, 2004	\$4,328,210	\$ 1,602	\$ 77,313	\$ 778,431	\$ 792	\$ -	\$ 568,732	\$5,755,080
Additions in 2004-2005	446,400	61	73,469	217,307	-	1,379	541,517	1,280,133
Deductions in 2004-2005	<u>(294,977)</u>	<u>(444)</u>	<u>(74,716)</u>	<u>(370,391)</u>	<u>-</u>	<u>-</u>	<u>(359,077)</u>	<u>(1,099,605)</u>
Balances at June 30, 2005	<u>\$4,479,633</u>	<u>\$ 1,219</u>	<u>\$ 76,066</u>	<u>\$ 625,347</u>	<u>\$ 792</u>	<u>\$ 1,379</u>	<u>\$ 751,172</u>	<u>\$5,935,608</u>
Due within one year	<u>\$ 74,995</u>	<u>\$ 383</u>	<u>\$ 1,952</u>	<u>\$ 24,906</u>	<u>\$ 79</u>	<u>\$ 177</u>	<u>\$ 236,143</u>	<u>\$ 338,635</u>
Interest expense in 2004-2005	<u>\$ 217,644</u>	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 31,728</u>	<u>\$ -</u>	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 249,494</u>

*Net of unamortized premiums and discounts.

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

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

The General Obligation Bonds balance of \$4,479,633,000, which is net of unamortized bond premiums and discounts of \$5,327,000, consists of (a) six issuances of Proposition BB bonds: Series "A" bonds, sold in July 1997 at \$356.0 million par value, of which \$18.5 million and \$133.2 million were refunded in December 2004 and July 2005, respectively; Series "B" bonds, sold in August 1998 at \$350.0 million par value, of which \$90.9 million and \$150.5 million were refunded in April 2002 and July 2005, respectively; Series "C" bonds, sold in August 1999 at \$300.0 million par value, of which \$70.8 million, \$14.2 million and \$124.3 million were refunded in April 2002, December 2004 and July 2005, respectively; Series "D" bonds, sold in August 2000 at \$386.7 million par value, of which \$101.0 million, \$107.2 million and \$76.6 million were refunded in April 2002, December 2004 and July 2005, respectively; Series "E" bonds, sold in April 2002 at \$500.0 million par value, of which \$75.8 million were refunded in December 2004; and Series "F" bonds, sold in March 2003 at \$507.3 million par value; (b) Measure K bonds: Series "A" bonds, sold in February 2003 at \$2.1 billion par value; (c) four issuances of Measure R sold in September 2004: Series "A" 2004 bonds at \$72.6 million par value, Series "B" 2004 bonds at \$60.5 million par value, Series "C" bonds at \$50 million par value and Series "D" 2004 bonds at \$16.9 million par value, all of which, except for Series C, were used to partially and fully refund certain certificates of participation and (d) general obligation refunding bonds Series "A-1" and "A-2" sold in December 2004 at \$219.1 million par value that were used to partially refund certain Proposition BB bonds Series A, C, D and E as stated above.

As mentioned above, the District issued \$150.0 million of Measure R general obligation bonds to refund \$143.4 million of certificates of participation and \$219.1 million of general obligation refunding bonds to refund \$215.7 million of Proposition BB bonds. Both refundings provided resources to purchase securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments on the refunded debt. As a result, the refunded debts are considered defeased and the corresponding liabilities have been removed from the District's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$6.6 million and \$18.4 million, respectively, of which \$5.4 million has been amortized during fiscal year 2004-2005 for the COPs refunding. The unamortized balance of \$1.2 million and \$18.4 million is netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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

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

Proposition BB, which was approved at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed \$2.4 billion. Measure K, which was approved at an election held on November 5, 2002, by more than 55% of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed \$3.35 billion. Measure R, which was approved at an election held on March 2, 2004, by approximately 63.7% of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed \$3.87 billion, the first 4 series of which were issued in September 2004 at an aggregate principal amount of \$200.0 million. The Board of Supervisors of the County of Los Angeles is empowered and obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County and used solely for the payment of the bonds and interest thereon when due.

The State School Building Aid Fund Payable balance of \$1.2 million at June 30, 2005 represents loans under the State Education Code Section 16310 for the replacement or rehabilitation of pre-1933 buildings. These loans are repaid with interest at varying rates, as specified by the State Allocation Board at the time of approval of each project application, from annual tax collections received by the Tax Override Fund. Principal and interest are to be paid in 20 equal annual amounts, not to exceed the amount that would be produced by a property tax levy of 4.375 cents per \$100 of assessed value. It is anticipated that these loans will be paid off during the 2008-2009 fiscal year.

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

The Children Center Facilities Fund Revolving loan represents loan proceeds from the State Child Development Revolving Fund for the purchase of relocatable buildings, sites and site improvements for child care facilities. The loan, which does not incur interest charges, must be repaid in ten years. Annual repayment will begin when the full amount of the loan is received. The District's policy relating to accumulated vacation leave is described in Note A. The liability for earned vacation benefits at June 30, 2005 for all funds amounted to \$76.07 million. This liability will be paid in future years as employees take vacation leave or terminate employment with the District, from future resources of the Funds under which the employees are reported, which in prior years has primarily been the General Fund. Repayment of obligations for liability for compensated absences and self-insurance claims will be made over an indeterminate period.

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

NOTE L – INTERFUND TRANSACTIONS

- 1) Interfund Receivables/Payables (Due To/From Other Funds) – Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. The following is a summary of interfund receivables and payables at June 30, 2005 (in thousands):

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

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

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

- 2) Interfund Transfers - Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2005 were as follows (in thousands):

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

NOTE M – FUND EQUITY

1) Governmental Fund Types

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

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

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

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

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

2) Proprietary Fund and Fiduciary Fund Types:

The following is a summary of the components of net assets of Proprietary (internal service) and Fiduciary (pension trust) Funds at June 30, 2005 (in thousands):

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

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

NOTE N – CONTINGENCIES

- 1) GENERAL – The District has been named as a defendant in numerous lawsuits. These seek, among other things, to require the District to reinstate terminated and laid-off employees, to remedy alleged non-compliance regarding special education schools and to change existing instructional programs, pupil integration methods and employment and administration procedures. In certain instances, monetary damages are sought including claims for retroactive pay. Based on the opinion of counsel, management believes that the ultimate outcome of such lawsuits will not have a material effect on the District's financial condition.
- 2) GRANTS – The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursement will not be material to the financial statements.
- 3) VISTA HERMOSA (FORMERLY THE “BELMONT LEARNING COMPLEX”) – In 1997, the District commenced the development of the Belmont Learning Complex, a large-scale urban high school complex that was envisioned to include a mixed-use commercial component. In January 2000, due to environmental concerns, the District's Board of Education directed that construction on the Belmont Learning Complex be halted and the project cancelled. The Board also directed the staff to prepare recommendations for the future use of the site and the partially constructed facility and a plan for the housing of the students who were scheduled to attend a completed Belmont facility. Subsequently, the Board requested and received proposals for the use of the property, including completion of the school. These proposals were evaluated by an independent panel of environmental, construction finance and insurance experts, who together with the Superintendent identified the preferred bidder. The Board approved the recommendations made by the expert panel and the Superintendent subject to satisfactory negotiations and implementation of various oversight procedures. Due to the discovery of an earthquake fault zone under the site, the District decided on December 4, 2002 not to continue efforts to complete the Belmont Learning Complex on its original design. On May 22, 2003, the District approved the “Vista Hermosa” option to complete the Belmont Learning Complex. Construction will proceed to build a park and a new high school with 2,835 student seats in an extremely overcrowded area. Two buildings on top of the seismic fault will be demolished.
- 4) CONSTRUCTION CONTRACTS – The District receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement

recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying basic financial statements.

The District is a defendant in various lawsuits at June 30, 2005. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. During fiscal year 2004-05 the District entered into approximately 470 contracts with a combined value of \$1.2 billion. The durations of the contracts range from one week to three years.

NOTE O – PROPOSITION BB BONDS

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

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

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

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

NOTE P – GENERAL OBLIGATION BONDS – PROPOSITION 39

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

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

Measure R or the Safe and Healthy Neighborhood Schools Improvement Act of 2004 was passed and approved on March 2, 2004 by more than 55% of the registered voters voting on the proposition. The District is thereby authorized to issue and sell up to \$3.87 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.

NOTE Q – STATE SCHOOL FACILITIES BONDS

Proposition 1A and Proposition 47 – Proposition 1A was approved in November 1998 and provided \$6.7 billion of capital funding for schools. Proposition 47 was approved by the California voters on the November 5, 2002 ballot. This measure authorizes the sale and issuance of \$13.05 billion in general obligation bonds by the State for funding construction and renovation of K-12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion). Proposition 47 includes \$6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, \$2.9 billion will be set

aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002. The balance of \$3.45 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 50% of the costs for acquisition of land and new construction with local revenues. In addition, \$100 million of the \$3.45 billion would be available for charter school facilities. Proposition 47 makes available \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, \$1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of \$1.4 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 40% of the costs for reconstruction or modernization with local revenues. Proposition 47 provides a total of \$1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have a large number of pupils relative to the size of the school site. In addition, \$50 million will be available to fund joint-use projects. Proposition 47 also includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

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

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

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

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

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

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

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



DISTRICT BONDS FUND

The Building Account – Bond Proceeds was established on April 4, 1997 to account for revenues received 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 revenues 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 revenues received by the passage of Measure R in March 2004.

LOS ANGELES UNIFIED SCHOOL DISTRICT
DISTRICT BONDS FUND
COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS
June 30, 2005 (in thousands)

	BUILDING ACCOUNT - BOND PROCEEDS	BUILDING ACCOUNT - MEASURE K	BUILDING ACCOUNT - MEASURE R	TOTAL
ASSETS				
Cash in county treasury, banks and on hand	\$ 362,873	\$ 909,854	\$ 299	\$ 1,273,026
Cash held by trustee	-	300	38	338
Account receivable - net	7,700	2,200	-	9,900
Accrued interest and dividends receivable	3,053	10,114	-	13,167
Prepaid expenditures	4,328	-	-	4,328
Due from other funds	6,543	291,554	127,379	425,476
TOTAL ASSETS	\$ 384,497	\$ 1,214,022	\$ 127,716	\$ 1,726,235
LIABILITIES				
Vouchers and accounts payable	\$ 5,877	\$ 42,826	\$ 16,644	\$ 65,347
Contracts payable	20,520	80,543	23,631	124,694
Accrued payroll	485	1,756	220	2,461
Other payables	13,259	1,570	-	14,829
Due to other funds	79,589	46,357	262,035	387,981
TOTAL LIABILITIES	119,730	173,052	302,530	595,312
FUND BALANCES				
Fund balances:				
Reserved for:				
Revolving and imprest funds	3,000	-	-	3,000
Prepays	4,328	-	-	4,328
Total Reserved	7,328	-	-	7,328
Unreserved:				
Designated for:				
Subsequent year expenditures	257,439	1,040,970	(174,814)	1,123,595
Total Designated	257,439	1,040,970	(174,814)	1,123,595
Total Unreserved Fund Equity	257,439	1,040,970	(174,814)	1,123,595
TOTAL FUND BALANCES	264,767	1,040,970	(174,814)	1,130,923
TOTAL LIABILITIES AND FUND BALANCES	\$ 384,497	\$ 1,214,022	\$ 127,716	\$ 1,726,235

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
DISTRICT BONDS FUND**
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE ACCOUNTS
For the Year Ended June 30, 2005 (in thousands)**

	BUILDING ACCOUNT - BOND PROCEEDS	BUILDING ACCOUNT - MEASURE K	BUILDING ACCOUNT - MEASURE R	TOTAL
REVENUES				
Other local revenues	\$ 10,733	\$ 25,954	\$ 17	\$ 36,704
TOTAL REVENUES	10,733	25,954	17	36,704
EXPENDITURES				
Current:				
Classified salaries	11,310	25,500	9,141	45,951
Employee benefits	4,476	9,370	3,584	17,430
Books and supplies	1,542	3,201	2,482	7,225
Services and other				
operating expenditures	33,549	11,574	8,786	53,909
Capital outlay	191,118	611,340	205,026	1,007,484
TOTAL EXPENDITURES	241,995	660,985	229,019	1,131,999
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(231,262)	(635,031)	(229,002)	(1,095,295)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	59	59
Transfers out	-	-	(149,995)	(149,995)
Proceeds from issuance of bonds	-	-	200,000	200,000
Premium on bonds issued	-	-	4,124	4,124
TOTAL OTHER FINANCING SOURCES	-	-	54,188	54,188
NET CHANGES IN FUND BALANCES	(231,262)	(635,031)	(174,814)	(1,041,107)
FUND BALANCES, JULY 1	496,029	1,676,001	-	2,172,030
FUND BALANCES, JUNE 30	\$ 264,767	\$ 1,040,970	\$ (174,814)	\$ 1,130,923

See accompanying independent auditors' report.

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 from 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 grants, State grants and apportionments, Early Education Centers 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 and Measure R 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 fully paid.

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 fund 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.

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 the 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 on 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, 2005 (in thousands)**

	SPECIAL REVENUE		
	ADULT EDUCATION	CAFETERIA	CHILD DEVELOPMENT
ASSETS			
Cash in county treasury, banks and on hand	\$ 21,888	\$ 19,938	\$ 10,370
Cash held by trustee	-	-	-
Investments	-	-	-
Taxes receivable	-	-	-
Accounts receivable - net	14,252	55,392	3,021
Accrued interest and dividends receivable	135	38	-
Due from other funds	7,105	1,528	11,164
Inventories	62	7,577	54
TOTAL ASSETS	\$ 43,442	\$ 84,473	\$ 24,609
LIABILITIES			
Vouchers and accounts payable	\$ 1,170	\$ 5,142	\$ 1,587
Contracts payable	2	-	-
Accrued payroll	4,926	7,070	4,505
Other payables	129	820	4,714
Due to other funds	23,012	30,208	8,856
Deferred revenue	7,212	-	1,185
TOTAL LIABILITIES	36,451	43,240	20,847
FUND EQUITY			
Fund balances:			
Reserved for:			
Revolving and imprest funds	125	-	53
Inventories	62	7,577	54
Debt service	-	-	-
Total Reserved	187	7,577	107
Unreserved:			
Designated for:			
Subsequent year expenditures	1,732	32,612	3,655
Total Designated	1,732	32,612	3,655
Undesignated	5,072	1,044	-
Total Unreserved Fund Equity	6,804	33,656	3,655
TOTAL FUND EQUITY	6,991	41,233	3,762
TOTAL LIABILITIES AND FUND EQUITY	\$ 43,442	\$ 84,473	\$ 24,609

See accompanying independent auditors' report.

		DEBT SERVICE			
DEFERRED MAINTENANCE	TOTAL	BOND INTEREST AND REDEMPTION	TAX OVERRIDE	CAPITAL SERVICES	TOTAL
\$ 57,317	\$ 109,513	\$ 211,449	\$ 89	\$ 2,593	\$ 214,131
-	-	-	-	2,345	2,345
-	-	-	-	10,264	10,264
-	-	23,132	-	-	23,132
-	72,665	-	-	4,287	4,287
340	513	-	1	367	368
1	19,798	-	2	33,305	33,307
-	7,693	-	-	-	-
<u>\$ 57,658</u>	<u>\$ 210,182</u>	<u>\$ 234,581</u>	<u>\$ 92</u>	<u>\$ 53,161</u>	<u>\$ 287,834</u>
\$ 259	\$ 8,158	\$ -	\$ -	\$ 28	\$ 28
-	2	-	-	-	-
-	16,501	-	-	-	-
-	5,663	-	-	336	336
455	62,531	-	-	39,940	39,940
-	8,397	23,132	-	-	23,132
<u>714</u>	<u>101,252</u>	<u>23,132</u>	<u>-</u>	<u>40,304</u>	<u>63,436</u>
-	178	-	-	-	-
-	7,693	-	-	-	-
-	-	211,449	92	12,857	224,398
-	7,871	211,449	92	12,857	224,398
56,944	94,943	-	-	-	-
56,944	94,943	-	-	-	-
-	6,116	-	-	-	-
56,944	101,059	-	-	-	-
56,944	108,930	211,449	92	12,857	224,398
<u>\$ 57,658</u>	<u>\$ 210,182</u>	<u>\$ 234,581</u>	<u>\$ 92</u>	<u>\$ 53,161</u>	<u>\$ 287,834</u>

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2005 (in thousands)**

	<u>BUILDING</u>	<u>STATE SCHOOL BUILDING LEASE - PURCHASE</u>	<u>SPECIAL RESERVE</u>	<u>SPECIAL RESERVE - FEMA - EARTHQUAKE</u>	<u>CAPITAL SPECIAL RESERVE - FEMA HAZARD MITIGATION</u>
ASSETS					
Cash in county treasury, banks and on hand	\$ 1,933	\$ 24,396	\$ 122,207	\$ 2,306	\$ 2,997
Cash held by trustee	-	-	136,389	-	-
Investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Accounts receivable - net	-	991	23,233	-	-
Accrued interest and dividends receivable	10	-	807	-	-
Due from other funds	41	16	110,354	7,179	5,094
Inventories	-	-	-	-	-
TOTAL ASSETS	\$ 1,984	\$ 25,403	\$ 392,990	\$ 9,485	\$ 8,091
LIABILITIES					
Vouchers and accounts payable	\$ (2)	\$ 1,984	\$ 6,240	\$ 197	\$ 297
Contracts payable	-	1,033	11,105	334	100
Accrued payroll	2	-	33	6	-
Other payables	173	8,241	2,330	1,916	-
Due to other funds	-	7	45,524	6,563	5,469
Deferred revenue	-	-	-	-	-
TOTAL LIABILITIES	173	11,265	65,232	9,016	5,866
FUND EQUITY					
Fund balances:					
Reserved for:					
Revolving and imprest funds	-	-	-	-	-
Inventories	-	-	-	-	-
Debt service	-	-	-	-	-
Total Reserved	-	-	-	-	-
Unreserved:					
Designated for:					
Subsequent year expenditures	1,811	14,138	327,758	469	-
Total Designated	1,811	14,138	327,758	469	-
Undesignated	-	-	-	-	2,225
Total Unreserved Fund Equity	1,811	14,138	327,758	469	2,225
TOTAL FUND EQUITY	1,811	14,138	327,758	469	2,225
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,984	\$ 25,403	\$ 392,990	\$ 9,485	\$ 8,091

See accompanying independent auditors' report.

PROJECTS SPECIAL RESERVE - COMMUNITY REDEVELOPMENT AGENCY	CAPITAL FACILITIES ACCOUNT	COUNTY SCHOOL FACILITIES BONDS			TOTAL
		COUNTY SCHOOL FACILITIES	COUNTY SCHOOL FACILITIES PROP 47	COUNTY SCHOOL FACILITIES PROP 55	
\$ 9,410	\$ 126,521	\$ 202,202	\$ 74,024	\$ 37,369	\$ 313,595
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
50	14,890	-	-	-	-
995	732	-	-	-	-
-	4,801	4	75	-	79
-	-	-	-	-	-
<u>\$ 10,455</u>	<u>\$ 146,944</u>	<u>\$ 202,206</u>	<u>\$ 74,099</u>	<u>\$ 37,369</u>	<u>\$ 313,674</u>
\$ -	\$ 1,480	\$ 7,492	\$ 2,551	\$ -	\$ 10,043
-	2,682	15,349	4,219	-	19,568
-	16	-	2	-	2
-	3,490	16,092	1,809	8	17,909
-	6,156	935	506	18,279	19,720
-	-	-	-	-	-
-	13,824	39,868	9,087	18,287	67,242
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,455	133,120	162,338	65,012	19,082	246,432
10,455	133,120	162,338	65,012	19,082	246,432
-	-	-	-	-	-
10,455	133,120	162,338	65,012	19,082	246,432
10,455	133,120	162,338	65,012	19,082	246,432
<u>\$ 10,455</u>	<u>\$ 146,944</u>	<u>\$ 202,206</u>	<u>\$ 74,099</u>	<u>\$ 37,369</u>	<u>\$ 313,674</u>

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2005 (in thousands)**

	<u>TOTAL</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS		
Cash in county treasury, banks and on hand	\$ 603,365	\$ 927,009
Cash held by trustee	136,389	138,734
Investments	-	10,264
Taxes receivable	-	23,132
Accounts receivable - net	39,114	116,066
Accrued interest and dividends receivable	1,599	2,480
Due from other funds	128,559	181,664
Inventories	-	7,693
TOTAL ASSETS	<u>\$ 909,026</u>	<u>\$ 1,407,042</u>
LIABILITIES		
Vouchers and accounts payable	\$ 20,239	\$ 28,425
Contracts payable	34,822	34,824
Accrued payroll	59	16,560
Other payables	34,059	40,058
Due to other funds	83,439	185,910
Deferred revenue	-	31,529
TOTAL LIABILITIES	<u>172,618</u>	<u>337,306</u>
FUND EQUITY		
Fund balances:		
Reserved for:		
Revolving and imprest funds	-	178
Inventories	-	7,693
Debt service	-	224,398
Total Reserved	<u>-</u>	<u>232,269</u>
Unreserved:		
Designated for:		
Subsequent year expenditures	734,183	829,126
Total Designated	<u>734,183</u>	<u>829,126</u>
Undesignated	2,225	8,341
Total Unreserved Fund Equity	<u>736,408</u>	<u>837,467</u>
TOTAL FUND EQUITY	<u>736,408</u>	<u>1,069,736</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 909,026</u>	<u>\$ 1,407,042</u>

See accompanying independent auditors' report.



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

	SPECIAL REVENUE			
	ADULT EDUCATION	CAFETERIA	CHILD DEVELOPMENT	DEFERRED MAINTENANCE
REVENUES				
Revenue limit sources	\$ 143,364	\$ -	\$ -	\$ -
Federal revenues	20,743	226,640	21,375	-
Other state revenues	13,315	14,114	73,501	30,104
Other local revenues	1,124	20,646	6,384	764
TOTAL REVENUES	178,546	261,400	101,260	30,868
EXPENDITURES				
Current:				
Certificated salaries	96,711	-	36,822	-
Classified salaries	21,825	88,625	33,059	4,201
Employee benefits	37,292	38,033	24,778	1,666
Books and supplies	5,509	112,376	3,577	1,138
Services and other operating expenditures	4,923	7,589	4,870	10,180
Capital outlay	627	-	2,459	1,512
Debt service - principal	-	-	-	-
Debt service - bond and COPs interest	-	-	-	-
Debt service - refunding bond issuance cost	-	-	-	-
TOTAL EXPENDITURES	166,887	246,623	105,565	18,697
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11,659	14,777	(4,305)	12,171
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	8,065	23,300
Transfers - support costs	(6,109)	-	-	-
Transfers out	-	(1,251)	(2,100)	-
Proceeds from refunding bonds issued	-	-	-	-
Premium on refunding bonds issued	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-
Payment to refunded COPs escrow agent	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,109)	(1,251)	5,965	23,300
NET CHANGES IN FUND BALANCES	5,550	13,526	1,660	35,471
FUND BALANCES, JULY 1	1,441	27,707	2,102	21,473
FUND BALANCES, JUNE 30	\$ 6,991	\$ 41,233	\$ 3,762	\$ 56,944

See accompanying independent auditors' report.

DEBT SERVICE				
TOTAL	BOND INTEREST AND REDEMPTION	TAX OVERRIDE	CAPITAL SERVICES	TOTAL
\$ 143,364	\$ -	\$ -	\$ -	\$ -
268,758	-	-	-	-
131,034	2,820	5	-	2,825
28,918	308,413	457	916	309,786
<u>572,074</u>	<u>311,233</u>	<u>462</u>	<u>916</u>	<u>312,611</u>
133,533	-	-	-	-
147,710	-	-	-	-
101,769	-	-	-	-
122,600	-	-	-	-
27,562	-	-	-	-
4,598	-	-	-	-
-	46,695	364	57,924	104,983
-	218,926	80	12,426	231,432
-	1,337	-	-	1,337
<u>537,772</u>	<u>266,958</u>	<u>444</u>	<u>70,350</u>	<u>337,752</u>
<u>34,302</u>	<u>44,275</u>	<u>18</u>	<u>(69,434)</u>	<u>(25,141)</u>
31,365	-	-	400,866	400,866
(6,109)	-	-	-	-
(3,351)	-	-	(24,525)	(24,525)
-	219,125	-	-	219,125
-	16,338	-	-	16,338
-	(234,126)	-	-	(234,126)
-	-	-	(333,958)	(333,958)
<u>21,905</u>	<u>1,337</u>	<u>-</u>	<u>42,383</u>	<u>43,720</u>
56,207	45,612	18	(27,051)	18,579
52,723	165,837	74	39,908	205,819
<u>\$ 108,930</u>	<u>\$ 211,449</u>	<u>\$ 92</u>	<u>\$ 12,857</u>	<u>\$ 224,398</u>

Continued...

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

				CAPITAL
	BUILDING	STATE SCHOOL BUILDING LEASE - PURCHASE	SPECIAL RESERVE	SPECIAL RESERVE- FEMA - EARTHQUAKE
REVENUES				
Revenue limit sources	\$ -	\$ -	\$ -	\$ -
Federal revenues	-	-	-	(2,608)
Other state revenues	-	(13,277)	40	-
Other local revenues	230	-	4,254	-
TOTAL REVENUES	230	(13,277)	4,294	(2,608)
EXPENDITURES				
Current:				
Certificated salaries	-	-	-	-
Classified salaries	7	84	1,471	206
Employee benefits	2	36	554	79
Books and supplies	6	99	34	12
Services and other operating expenditures	49	118	(264)	(3,984)
Capital outlay	33	2,069	67,592	866
Debt service - principal	-	-	-	-
Debt service - bond and COPs interest	-	-	-	-
Debt service - refunding bond issuance cost	-	-	-	-
TOTAL EXPENDITURES	97	2,406	69,387	(2,821)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	133	(15,683)	(65,093)	213
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,613	127,695	-
Transfers - support costs	-	-	-	-
Transfers out	-	-	(45,955)	(213)
Proceeds from refunding bonds issued	-	-	-	-
Premium on refunding bonds issued	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-
Payment to refunded COPs escrow agent	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	7,613	81,740	(213)
NET CHANGES IN FUND BALANCES	133	(8,070)	16,647	-
FUND BALANCES, JULY 1	1,678	22,208	311,111	469
FUND BALANCES, JUNE 30	\$ 1,811	\$ 14,138	\$ 327,758	\$ 469

See accompanying independent auditors' report.

PROJECTS			COUNTY SCHOOL FACILITIES BONDS			
SPECIAL RESERVE - FEMA HAZARD MITIGATION	SPECIAL RESERVE - COMMUNITY REDEVELOPMENT AGENCY	CAPITAL FACILITIES ACCOUNT	COUNTY SCHOOL FACILITIES	COUNTY SCHOOL FACILITIES PROP 47	COUNTY SCHOOL FACILITIES PROP 55	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8,601	-	-	-	-	-	-
-	-	-	(715)	62,435	37,360	99,080
-	3,549	80,086	-	-	-	-
<u>8,601</u>	<u>3,549</u>	<u>80,086</u>	<u>(715)</u>	<u>62,435</u>	<u>37,360</u>	<u>99,080</u>
-	-	-	-	-	-	-
186	-	697	1,015	1,355	-	2,370
63	-	274	360	490	-	850
2	-	268	236	232	-	468
12,691	-	1,290	(62)	739	-	677
(4,490)	-	11,833	167,476	68,720	18,278	254,474
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>8,452</u>	<u>-</u>	<u>14,362</u>	<u>169,025</u>	<u>71,536</u>	<u>18,278</u>	<u>258,839</u>
149	3,549	65,724	(169,740)	(9,101)	19,082	(159,759)
2,225	-	-	-	-	-	-
-	-	-	-	-	-	-
(149)	-	(31,658)	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,076</u>	<u>-</u>	<u>(31,658)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,225	3,549	34,066	(169,740)	(9,101)	19,082	(159,759)
-	6,906	99,054	332,078	74,113	-	406,191
<u>\$ 2,225</u>	<u>\$ 10,455</u>	<u>\$ 133,120</u>	<u>\$ 162,338</u>	<u>\$ 65,012</u>	<u>\$ 19,082</u>	<u>\$ 246,432</u>

Continued...

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

	<u>TOTAL</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES		
Revenue limit sources	\$ -	\$ 143,364
Federal revenues	5,993	274,751
Other state revenues	85,843	219,702
Other local revenues	88,119	426,823
	<u>179,955</u>	<u>1,064,640</u>
TOTAL REVENUES		
EXPENDITURES		
Current:		
Certificated salaries	-	133,533
Classified salaries	5,021	152,731
Employee benefits	1,858	103,627
Books and supplies	889	123,489
Services and other operating expenditures	10,577	38,139
Capital outlay	332,377	336,975
Debt service - principal	-	104,983
Debt service - bond and COPs interest	-	231,432
Debt service - refunding bond issuance cost	-	1,337
	<u>350,722</u>	<u>1,226,246</u>
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(170,767)</u>	<u>(161,606)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	137,533	569,764
Transfers - support costs	-	(6,109)
Transfers out	(77,975)	(105,851)
Proceeds from refunding bonds issued	-	219,125
Premium on refunding bonds issued	-	16,338
Payment to refunded bonds escrow agent	-	(234,126)
Payment to refunded COPs escrow agent	-	(333,958)
	<u>59,558</u>	<u>125,183</u>
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGES IN FUND BALANCES	(111,209)	(36,423)
FUND BALANCES, JULY 1	847,617	1,106,159
FUND BALANCES, JUNE 30	<u>\$ 736,408</u>	<u>\$ 1,069,736</u>

See accompanying independent auditors' report.

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
June 30, 2005 (in thousands)**

	HEALTH AND WELFARE BENEFITS	WORKERS' COMPENSATION	LIABILITY	TOTAL
ASSETS				
Cash in county treasury, banks and on hand	\$ 89,399	\$ 86,182	\$ 14,300	\$ 189,881
Investments	-	297,051	-	297,051
Accounts receivable - net	949	280	-	1,229
Accrued interest and dividends receivable	665	2,894	85	3,644
Prepaid expense	10,964	-	5,426	16,390
Due from other funds	4,348	16,421	17,728	38,497
TOTAL ASSETS	\$ 106,325	\$ 402,828	\$ 37,539	\$ 546,692
LIABILITIES				
Current:				
Vouchers and accounts payable	\$ 23,272	\$ 2,467	\$ 529	\$ 26,268
Accrued payroll	130	428	175	733
Other payables	210	613	-	823
Due to other funds	34,053	2,659	2,266	38,978
Estimated liability for self-insurance claims	37,264	170,236	28,643	236,143
Noncurrent:				
Estimated liability for self-insurance claims	-	515,029	-	515,029
TOTAL LIABILITIES	94,929	691,432	31,613	817,974
TOTAL NET ASSETS (DEFICIT)	11,396	(288,604)	5,926	(271,282)
TOTAL LIABILITIES AND NET ASSETS	\$ 106,325	\$ 402,828	\$ 37,539	\$ 546,692

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2005 (in thousands)**

	<u>HEALTH AND WELFARE BENEFITS</u>	<u>WORKERS' COMPENSATION</u>	<u>LIABILITY</u>	<u>TOTAL</u>
OPERATING REVENUES				
In-District premiums	\$ <u>658,588</u>	\$ <u>172,194</u>	\$ <u>16,439</u>	\$ <u>847,221</u>
OPERATING EXPENSES				
Salaries	1,122	3,502	989	5,613
Employee benefits	646	1,562	420	2,628
Supplies	194	206	45	445
Premiums and claims expenses	676,255	278,316	14,927	969,498
Claims administration	-	10,773	782	11,555
Other contracted services	<u>716</u>	<u>325</u>	<u>1</u>	<u>1,042</u>
TOTAL OPERATING EXPENSES	<u>678,933</u>	<u>294,684</u>	<u>17,164</u>	<u>990,781</u>
OPERATING LOSS	<u>(20,345)</u>	<u>(122,490)</u>	<u>(725)</u>	<u>(143,560)</u>
NONOPERATING REVENUES				
Investment income	1,824	8,420	338	10,582
Other local income	<u>24</u>	<u>-</u>	<u>-</u>	<u>24</u>
TOTAL NONOPERATING REVENUES	<u>1,848</u>	<u>8,420</u>	<u>338</u>	<u>10,606</u>
CHANGES IN NET DEFICIT	(18,497)	(114,070)	(387)	(132,954)
TOTAL NET ASSETS (DEFICIT), JULY 1	<u>29,893</u>	<u>(174,534)</u>	<u>6,313</u>	<u>(138,328)</u>
TOTAL NET ASSETS (DEFICIT), JUNE 30	\$ <u><u>11,396</u></u>	\$ <u><u>(288,604)</u></u>	\$ <u><u>5,926</u></u>	\$ <u><u>(271,282)</u></u>

See accompanying independent auditors' report.

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

	HEALTH AND WELFARE BENEFITS	WORKERS' COMPENSATION	LIABILITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash payments to employees for services	\$ (1,100)	\$ (4,637)	\$ (911)	\$ (6,648)
Cash payments for goods and services	(703,675)	(109,127)	(9,374)	(822,176)
Receipts from assessment to other funds	712,243	160,603	13,994	886,840
Other operating revenue (miscellaneous)	10,234	-	-	10,234
Net cash provided by operating activities	17,702	46,839	3,709	68,250
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	1,437	6,820	290	8,547
Purchase of investments	-	(297,323)	-	(297,323)
Net cash provided (used) by investing activities	1,437	(290,503)	290	(288,776)
Net increase (decrease) in cash and cash equivalents	19,139	(243,664)	3,999	(220,526)
Cash and cash equivalents, July 1	70,260	329,846	10,301	410,407
Cash and cash equivalents, June 30	\$ 89,399	\$ 86,182	\$ 14,300	\$ 189,881
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (20,345)	\$ (122,490)	\$ (725)	\$ (143,560)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(184)	885	-	701
(Increase) decrease in prepaid expense	(1,612)	-	387	(1,225)
(Increase) decrease in due from other funds	6,614	1,198	(2,123)	5,689
Increase (decrease) in vouchers and accounts payable	(1,552)	894	(107)	(765)
Decrease in accrued payroll	(54)	(224)	(25)	(303)
Decrease in other payables	(382)	(6,867)	-	(7,249)
Increase (decrease) in due to other funds	33,838	(2,016)	700	32,522
Increase in estimated liability for self-insurance claims - current	1,379	46,557	5,602	53,538
Increase in estimated liability for self-insurance claims - noncurrent	-	128,902	-	128,902
Total adjustments	38,047	169,329	4,434	211,810
Net cash provided by operating activities	\$ 17,702	\$ 46,839	\$ 3,709	\$ 68,250

See accompanying independent auditors' report.

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, 2005 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' accounts 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 student bodies at various school sites.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
June 30, 2005 (in thousands)**

	PENSION TRUST FUNDS			AGENCY FUND	TOTAL FIDUCIARY FUNDS
	ANNUITY RESERVE	ATTENDANCE INCENTIVE RESERVE	TOTAL	STUDENT BODY FUND	
ASSETS					
Cash in county treasury, banks and on hand	\$ 30	\$ 18,622	\$ 18,652	\$ 20,926	\$ 39,578
Investments	415	-	415	-	415
Due from other funds	-	5	5	-	5
Accrued interest and dividends receivable	-	111	111	-	111
TOTAL ASSETS	\$ 445	\$ 18,738	\$ 19,183	\$ 20,926	\$ 40,109
LIABILITIES					
Other payables	\$ -	\$ 18,721	\$ 18,721	\$ 20,926	\$ 39,647
Due to other funds	-	17	17	-	17
TOTAL LIABILITIES	-	18,738	18,738	20,926	39,664
TOTAL NET ASSETS - unrestricted	445	-	445	-	445
TOTAL LIABILITIES AND NET ASSETS	\$ 445	\$ 18,738	\$ 19,183	\$ 20,926	\$ 40,109

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

	<u>ANNUITY RESERVE</u>	<u>ATTENDANCE INCENTIVE RESERVE</u>	<u>TOTAL</u>
ADDITIONS			
Investment income	\$ <u>10</u>	\$ <u>66</u>	\$ <u>76</u>
TOTAL ADDITIONS	<u>10</u>	<u>66</u>	<u>76</u>
DEDUCTIONS			
Distributions to participants	190	-	190
Other contracted services	<u>-</u>	<u>66</u>	<u>66</u>
TOTAL DEDUCTIONS	<u>190</u>	<u>66</u>	<u>256</u>
CHANGES IN NET ASSETS	(180)	-	(180)
TOTAL NET ASSETS, JULY 1	<u>625</u>	<u>-</u>	<u>625</u>
TOTAL NET ASSETS, JUNE 30	\$ <u><u>445</u></u>	\$ <u><u>-</u></u>	\$ <u><u>445</u></u>

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, 2005 and 2004 (in thousands)

	<u>2005</u>	<u>2004</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS		
Sites	\$ 1,805,711	\$ 1,671,373
Improvement of sites	345,725	344,671
Building and improvements	3,104,384	2,725,055
Equipment	1,094,832	1,087,143
Construction in progress	<u>2,600,475</u>	<u>1,745,176</u>
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	<u>\$ 8,951,127</u>	<u>\$ 7,573,418</u>
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
From revenues of:		
General Fund	\$ 1,214,863	\$ 1,181,614
Special Revenue Funds:		
Adult Education Fund	39,915	39,288
Cafeteria Fund	25,566	25,566
Child Development Fund	17,137	14,678
Deferred Maintenance Fund	9,622	8,110
Capital Projects Funds:		
Building Fund	35,601	35,568
Building Fund - Bond Proceeds	1,520,126	1,321,309
Building Fund - Measure K	969,424	371,887
Building Fund - Measure R	211,131	-
State School Building Lease - Purchase Fund	1,022,969	1,020,900
Special Reserve Fund	1,097,098	1,029,507
Special Reserve Fund - FEMA - Earthquake	15,339	14,473
Special Reserve Fund - FEMA - Hazard Mitigation	8,045	12,535
Capital Facilities Fund	183,492	171,659
County School Facilities Fund	652,066	484,590
County School Facilities - Prop 47 Fund	176,098	107,378
County School Facilities - Prop 55 Fund	18,279	-
Investment in General Fixed Assets prior to July 1, 1983*	<u>1,734,356</u>	<u>1,734,356</u>
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	<u>\$ 8,951,127</u>	<u>\$ 7,573,418</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
For the Year Ended June 30, 2005 (in thousands)**

	<u>SITES</u>	<u>IMPROVEMENT OF SITES</u>
BALANCES, JULY 1, 2004	\$ 1,231,876	\$ 269,880
RESTATEMENT OF BALANCES, JULY 1, 2004	<u>439,497</u>	<u>74,791</u>
RESTATED BALANCES, JULY 1, 2004	<u>1,671,373</u>	<u>344,671</u>
ADDITIONS		
Capital outlay from:		
General Fund	-	606
Adult Education Fund	-	59
Child Development Fund	-	52
Deferred Maintenance Fund	-	-
Building Fund	-	-
Building Fund - Bond Proceeds	29,493	-
Building Fund - Measure K	81,442	-
Building Fund - Measure R	717	-
State School Building Lease - Purchase Fund	570	-
Special Reserve Fund	(22,259)	9
Special Reserve Fund - FEMA - Earthquake	-	-
Special Reserve Fund - FEMA - Hazard Mitigation	-	-
Capital Facilities Fund	1,646	37
County School Facilities Fund	32,493	-
County School Facilities - Prop 47 Fund	10,236	-
County School Facilities - Prop 55 Fund	-	-
Completed Projects	<u>-</u>	<u>291</u>
TOTAL ADDITIONS	<u>134,338</u>	<u>1,054</u>
DEDUCTIONS		
Vehicle disposal	-	-
Return to salvage	<u>-</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>-</u>	<u>-</u>
NET INCREASE	<u>134,338</u>	<u>1,054</u>
BALANCES, JUNE 30, 2005	<u><u>\$ 1,805,711</u></u>	<u><u>\$ 345,725</u></u>

See accompanying independent auditors' report.

<u>BUILDING AND IMPROVEMENTS</u>	<u>EQUIPMENT</u>	<u>CONSTRUCTION IN PROGRESS</u>	<u>TOTAL</u>
\$ 2,795,740	\$ 1,095,905	\$ 2,180,017	\$ 7,573,418
<u>(70,685)</u>	<u>(8,762)</u>	<u>(434,841)</u>	<u>-</u>
<u>2,725,055</u>	<u>1,087,143</u>	<u>1,745,176</u>	<u>7,573,418</u>
8,296	17,464	27,418	53,784
275	300	(7)	627
103	-	2,304	2,459
-	-	1,512	1,512
36	-	(3)	33
-	-	169,324	198,817
-	-	516,095	597,537
-	-	210,414	211,131
31	-	1,468	2,069
1,560	7,256	81,025	67,591
-	-	866	866
-	-	(4,490)	(4,490)
411	-	9,739	11,833
-	-	134,983	167,476
-	-	58,484	68,720
-	-	18,279	18,279
<u>368,617</u>	<u>3,204</u>	<u>(372,112)</u>	<u>-</u>
<u>379,329</u>	<u>28,224</u>	<u>855,299</u>	<u>1,398,244</u>
-	914	-	914
-	<u>19,621</u>	-	<u>19,621</u>
-	<u>20,535</u>	-	<u>20,535</u>
<u>379,329</u>	<u>7,689</u>	<u>855,299</u>	<u>1,377,709</u>
\$ <u>3,104,384</u>	\$ <u>1,094,832</u>	\$ <u>2,600,475</u>	\$ <u>8,951,127</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CHANGES IN LONG-TERM OBLIGATIONS
For the Year Ended June 30, 2005 (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>
BALANCES, JULY 1, 2004	\$ <u>4,328,210</u>	\$ <u>1,602</u>	\$ <u>77,313</u>	\$ <u>764,960</u>
ADDITIONS				
General Obligation Bonds	419,125	-	-	-
Unamortized Premium on Bonds	27,275	-	-	-
State School Building Aid Fund:				
Interest Charges	-	61	-	-
Earned Vacation	-	-	73,469	-
Certificates of Participation	-	-	-	209,715
Interest	-	-	-	5,594
Capital Leases	-	-	-	-
CA Energy Commission Loan	-	-	-	-
Self-insurance Claims	-	-	-	-
TOTAL ADDITIONS	<u>446,400</u>	<u>61</u>	<u>73,469</u>	<u>215,309</u>
DEDUCTIONS				
General Obligation Bonds	262,375	-	-	-
Unamortized Charges - Bond Refund	32,602	-	-	-
State School Building Aid Fund:				
Principal Repayments	-	364	-	-
Interest Payments	-	80	-	-
Vacation Payments:				
Active Employees	-	-	68,974	-
Retired Employees	-	-	5,742	-
Certificates of Participation	-	-	-	358,096
Interest	-	-	-	6,777
Capital Leases	-	-	-	-
Self-insurance Claims	-	-	-	-
TOTAL DEDUCTIONS	<u>294,977</u>	<u>444</u>	<u>74,716</u>	<u>364,873</u>
BALANCES, JUNE 30, 2005	\$ <u><u>4,479,633</u></u>	\$ <u><u>1,219</u></u>	\$ <u><u>76,066</u></u>	\$ <u><u>615,396</u></u>

See accompanying independent auditors' report.

CAPITAL LEASES	CHILDREN CENTERS FACILITIES REVOLVING LOAN	CA ENERGY COMMISSION LOAN	SELF-INSURANCE CLAIMS	TOTAL
\$ 13,471	\$ 792	\$ -	\$ 568,732	\$ 5,755,080
-	-	-	-	419,125
-	-	-	-	27,275
-	-	-	-	61
-	-	-	-	73,469
-	-	-	-	209,715
-	-	-	-	5,594
1,998	-	-	-	1,998
-	-	1,379	-	1,379
-	-	-	541,517	541,517
1,998	-	1,379	541,517	1,280,133
-	-	-	-	262,375
-	-	-	-	32,602
-	-	-	-	364
-	-	-	-	80
-	-	-	-	68,974
-	-	-	-	5,742
-	-	-	-	358,096
-	-	-	-	6,777
5,518	-	-	-	5,518
-	-	-	359,077	359,077
5,518	-	-	359,077	1,099,605
\$ 9,951	\$ 792	\$ 1,379	\$ 751,172	\$ 5,935,608

**LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF STATE SCHOOL BUILDING AID FUND PAYABLE
June 30, 2005 (Dollars in thousands)**

Year	Interest Rate	Balance July 1, 2004	Additions	Deductions		Balance June 30, 2005
			Interest Charges	Principal Repayments	Interest Payments	
1983-1984	4.50%	\$ 2	\$ -	\$ 2	\$ -	\$ -
	4.80%	12	-	12	-	-
	5.30%	35	-	33	2	-
	5.50%	1	-	1	-	-
	5.60%	10	-	10	-	-
1984-1985	4.80%	49	1	23	2	25
	5.30%	68	2	32	4	34
	5.60%	8	-	4	-	4
1986-1987	4.50%	8	-	2	-	6
	4.90%	11	-	1	1	9
	5.30%	79	3	17	4	61
	5.50%	8	-	2	-	6
	5.60%	10	-	2	1	7
1987-1988	4.50%	50	2	9	2	41
	4.80%	95	4	17	4	78
	5.30%	966	40	165	49	792
	5.50%	61	3	10	4	50
	5.60%	129	6	22	7	106
TOTALS		\$ 1,602	\$ 61	\$ 364	\$ 80	\$ 1,219

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION
June 30, 2005 (Dollars in thousands)

Date of Issue	Interest Rate	Maturity Date	Balance of Original Issue	Outstanding July 1, 2004	Issued This Year	Redeemed Current Year	Accrued Interest	Outstanding June 30, 2005
1996 CERTIFICATES OF PARTICIPATION (KING DREW, E.L.A., 250 PORTABLES):								
10-16-96	4.900%	10-01-04	\$ 2,470	\$ 3,063	\$ -	\$ 3,063	\$ -	\$ -
10-16-96	5.000%	10-01-05	2,590	2,590	-	2,590	-	-
10-16-96	5.100%	10-01-06	2,720	2,720	-	2,720	-	-
10-16-96	5.200%	10-01-07	2,860	2,860	-	2,860	-	-
10-16-96	5.300%	10-01-08	3,010	3,010	-	3,010	-	-
10-16-96	5.400%	10-01-09	3,170	3,170	-	3,170	-	-
10-16-96	5.500%	10-01-10	3,340	3,340	-	3,340	-	-
10-16-96	5.500%	10-01-11	3,520	3,520	-	3,520	-	-
10-16-96	5.500%	10-01-12	3,715	3,715	-	3,715	-	-
10-16-96	5.500%	10-01-13	3,920	3,920	-	3,920	-	-
10-16-96	5.500%	10-01-14	4,135	4,135	-	4,135	-	-
10-16-96	5.500%	10-01-15	4,365	4,365	-	4,365	-	-
10-16-96	5.500%	10-01-16	4,605	4,605	-	4,605	-	-
1996 CERTIFICATES OF PARTICIPATION			\$ 44,420	\$ 45,013	\$ -	\$ 45,013	\$ -	\$ -
1997 CERTIFICATES OF PARTICIPATION (VISTA HERMOSA):								
12-01-97	Variable	12-01-04	\$ 3,900	\$ 3,958	\$ -	\$ 3,958	\$ -	\$ -
12-01-97	Variable	12-01-05	4,000	4,000	-	-	224	4,224
12-01-97	Variable	12-01-06	4,200	4,200	-	-	-	4,200
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			\$ 71,100	\$ 71,158	\$ -	\$ 3,958	\$ 224	\$ 67,424
1998 REFUNDING CERTIFICATES OF PARTICIPATION (MULTIPLE PROPERTIES PROJECT):								
06-01-98	5.000%	11-01-04	\$ 3,400	\$ 3,752	\$ -	\$ 3,752	\$ -	\$ -
06-01-98	5.000%	11-01-05	3,570	3,570	-	-	320	3,890
06-01-98	5.000%	11-01-06	3,750	3,750	-	-	-	3,750
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			\$ 42,755	\$ 43,107	\$ -	\$ 3,752	\$ 320	\$ 39,675

See accompanying independent auditors' report.

Continued...

Supplementary Information
**LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)**

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2000A CERTIFICATES OF PARTICIPATION (QUALIFIED ZONE ACADEMY BONDS PROJECT):								
05-23-00	0.000%	05-23-12	\$ 30,447	\$ 30,447	\$ -	\$ 5,075	\$ -	\$ 25,372
2000A CERTIFICATES OF PARTICIPATION			\$ 30,447	\$ 30,447	\$ -	\$ 5,075	\$ -	\$ 25,372
2000B CERTIFICATES OF PARTICIPATION (MULTIPLE PROPERTIES PROJECT):								
10-01-00	4.000%	10-01-04	\$ 15,000	\$ 16,209	\$ -	\$ 16,209	\$ -	\$ -
10-01-00	5.250%	10-01-04	10,185	10,185	-	10,185	-	-
10-01-00	4.000%	10-01-05	15,000	15,000	-	12,675	171	2,496
10-01-00	5.250%	10-01-05	11,325	11,325	-	9,565	-	1,760
10-01-00	4.100%	10-01-06	11,375	11,375	-	9,610	-	1,765
10-01-00	5.500%	10-01-06	12,555	12,555	-	10,605	-	1,950
10-01-00	4.125%	10-01-07	10,000	10,000	-	8,450	-	1,550
10-01-00	5.500%	10-01-07	15,095	15,095	-	12,755	-	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			\$ 103,720	\$ 104,929	\$ -	\$ 90,054	\$ 171	\$ 15,046
2001A CERTIFICATES OF PARTICIPATION (LAND ACQUISITION I):								
04-01-01	4.150%	04-04-08	\$ 1,440	\$ 1,566	\$ -	\$ 1,566	\$ -	\$ -
04-01-01	4.250%	04-01-09	1,500	1,500	-	1,500	-	-
04-01-01	4.375%	04-01-10	1,565	1,565	-	1,565	-	-
04-01-01	4.450%	04-01-11	1,630	1,630	-	1,630	-	-
04-01-01	4.600%	04-01-12	1,705	1,705	-	1,705	-	-
04-01-01	4.750%	04-01-13	1,785	1,785	-	1,785	-	-
04-01-01	4.850%	04-01-14	1,631	1,631	-	1,631	-	-
2001A CERTIFICATES OF PARTICIPATION			\$ 11,256	\$ 11,382	\$ -	\$ 11,382	\$ -	\$ -
2001B CERTIFICATES OF PARTICIPATION (BEAUDRY):								
11-06-01	5.000%	10-01-24	\$ 6,810	\$ 7,666	\$ -	\$ 856	\$ 869	\$ 7,679
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	\$ 69,746	\$ -	\$ 856	\$ 869	\$ 69,759

See accompanying independent auditors' report.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2001C CERTIFICATES OF PARTICIPATION (BEAUDRY):								
10-31-01	4.620%	10-01-06	\$ 3,105	\$ 3,105	\$ -	\$ 3,105	\$ -	\$ -
10-31-01	4.620%	10-01-07	3,255	3,255	-	3,255	-	-
10-31-01	4.620%	10-01-08	3,395	3,395	-	3,395	-	-
10-31-01	4.620%	10-01-09	3,560	3,560	-	3,560	-	-
10-31-01	4.620%	10-01-10	3,720	3,720	-	3,720	-	-
10-31-01	4.620%	10-01-11	3,890	3,890	-	3,890	-	-
10-31-01	4.620%	10-01-12	4,065	4,065	-	4,065	-	-
10-31-01	4.620%	10-01-13	4,265	4,265	-	4,265	-	-
10-31-01	4.620%	10-01-14	4,460	4,460	-	4,460	-	-
10-31-01	4.620%	10-01-15	4,660	4,660	-	4,660	-	-
10-31-01	4.620%	10-01-16	4,875	4,875	-	4,875	-	-
10-31-01	4.620%	10-01-17	5,105	5,105	-	5,105	-	-
10-31-01	4.620%	10-01-18	5,335	5,335	-	5,335	-	-
10-31-01	4.620%	10-01-19	5,585	5,585	-	5,585	-	-
10-31-01	4.620%	10-01-20	5,835	5,835	-	5,835	-	-
10-31-01	4.620%	10-01-21	6,105	6,105	-	6,105	-	-
10-31-01	4.620%	10-01-22	6,385	6,385	-	6,385	-	-
10-31-01	4.620%	10-01-23	6,680	6,680	-	6,680	-	-
10-31-01	4.620%	10-01-24	200	200	-	200	-	-
2001C CERTIFICATES OF PARTICIPATION			\$ 84,480	\$ 84,480	\$ -	\$ 84,480	\$ -	\$ -
2001D CERTIFICATES OF PARTICIPATION (LAND ACQUISITION II):								
12-13-01	3.000%	12-01-04	\$ 1,100	\$ 1,100	\$ -	\$ 1,100	\$ -	\$ -
12-13-01	3.350%	12-01-05	1,200	1,200	-	1,200	-	-
12-13-01	3.630%	12-01-06	1,200	1,200	-	1,200	-	-
12-13-01	3.910%	12-01-07	1,200	1,200	-	1,200	-	-
12-13-01	4.150%	12-01-08	1,300	1,300	-	1,300	-	-
12-13-01	4.270%	12-01-09	1,400	1,400	-	1,400	-	-
12-13-01	4.370%	12-01-10	1,400	1,400	-	1,400	-	-
12-13-01	4.470%	12-01-11	1,500	1,500	-	1,500	-	-
12-13-01	4.590%	12-01-12	1,500	1,500	-	1,500	-	-
12-13-01	4.720%	12-01-13	1,600	1,600	-	1,600	-	-
12-13-01	4.830%	12-01-14	1,700	1,700	-	1,700	-	-
12-13-01	4.910%	12-01-15	1,800	1,800	-	1,800	-	-
12-13-01	4.990%	12-01-16	1,900	1,900	-	1,900	-	-
12-13-01	5.090%	12-01-17	2,000	2,000	-	2,000	-	-
12-13-01	5.160%	12-01-18	2,100	2,100	-	2,100	-	-
12-13-01	5.200%	12-01-19	2,200	2,200	-	2,200	-	-
12-13-01	5.230%	12-01-20	2,300	2,300	-	2,300	-	-
12-13-01	5.250%	12-01-21	2,500	2,500	-	2,500	-	-
2001D CERTIFICATES OF PARTICIPATION			\$ 29,900	\$ 29,900	\$ -	\$ 29,900	\$ -	\$ -

See accompanying independent auditors' report.

Continued...

Supplementary Information
**LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)**

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2002A CERTIFICATES OF PARTICIPATION (BRAVO REFUNDING):								
03-06-02	5.000%	06-01-05	\$ 3,080	\$ 3,147	\$ -	\$ 3,147	\$ -	\$ -
03-06-02	5.000%	06-01-06	3,235	3,235	-	-	41	3,276
03-06-02	5.000%	06-01-07	3,395	3,395	-	-	-	3,395
03-06-02	5.000%	06-01-08	3,570	3,570	-	-	-	3,570
2002A CERTIFICATES OF PARTICIPATION			\$ 13,280	\$ 13,347	\$ -	\$ 3,147	\$ 41	\$ 10,241
2002B CERTIFICATES OF PARTICIPATION (MULTIPLE PROPERTIES PROJECT):								
12-04-02	2.000%	10-01-04	\$ 3,755	\$ 4,902	\$ -	\$ 4,902	\$ -	\$ -
12-04-02	4.000%	10-01-04	11,840	11,840	-	11,840	-	-
12-04-02	2.000%	10-01-05	9,220	9,220	-	9,220	-	-
12-04-02	4.000%	10-01-05	6,925	6,925	-	6,925	-	-
12-04-02	2.500%	10-01-06	6,055	6,055	-	6,055	-	-
12-04-02	5.000%	10-01-06	10,555	10,555	-	10,555	-	-
12-04-02	3.000%	10-01-07	6,320	6,320	-	6,320	-	-
12-04-02	5.000%	10-01-07	10,965	10,965	-	5,810	610	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			\$ 116,760	\$ 117,907	\$ -	\$ 61,627	\$ 610	\$ 56,890

See accompanying independent auditors' report.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2002C CERTIFICATES OF PARTICIPATION (BEAUDRY II):								
12-05-02	2.000%	10-01-04	\$ 195	\$ 298	\$ -	\$ 298	\$ -	\$ -
12-05-02	2.000%	10-01-05	195	195	-	195	-	-
12-05-02	2.250%	10-01-06	200	200	-	-	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			\$ 9,340	\$ 9,443	\$ -	\$ 493	\$ 101	\$ 9,051

See accompanying independent auditors' report.

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)**

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2003A CERTIFICATES OF PARTICIPATION (MULTIPLE PROPERTIES PROJECT):								
06-11-03	2.000%	08-01-04	\$ 10,355	\$ 12,068	\$ -	\$ 12,068	\$ -	\$ -
06-11-03	5.000%	08-01-05	4,000	4,000	-	4,000	-	-
06-11-03	2.000%	08-01-05	6,960	6,960	-	6,960	-	-
06-11-03	5.000%	08-01-06	8,775	8,775	-	-	1,473	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			\$ 100,215	\$ 101,928	\$ -	\$ 23,028	\$ 1,473	\$ 80,373

See accompanying independent auditors' report.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2003B CERTIFICATES OF PARTICIPATION (PICO RIVERA WAREHOUSE):								
06-11-03	2.000%	08-01-04	\$ 705	\$ 1,258	\$ -	\$ 1,258	\$ -	\$ -
06-11-03	2.000%	08-01-05	850	850	-	850	-	-
06-11-03	2.000%	08-01-06	870	870	-	-	535	1,405
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			\$ 31,620	\$ 32,173	\$ -	\$ 2,108	\$ 535	\$ 30,600
2004A CERTIFICATES OF PARTICIPATION (REFINANCING PROJECT I):								
07-28-04	3.000%	10-01-08	\$ -	\$ -	\$ 765	\$ -	\$ 483	\$ 1,248
07-28-04	4.000%	10-01-09	-	-	7,580	-	-	7,580
07-28-04	3.000%	10-01-10	-	-	7,845	-	-	7,845
07-28-04	3.125%	10-01-11	-	-	8,090	-	-	8,090
07-28-04	5.000%	10-01-12	-	-	8,430	-	-	8,430
07-28-04	4.000%	10-01-13	-	-	8,815	-	-	8,815
07-28-04	4.000%	10-01-14	-	-	9,175	-	-	9,175
2004A CERTIFICATES OF PARTICIPATION			\$ -	\$ -	\$ 50,700	\$ -	\$ 483	\$ 51,183
2004B CERTIFICATES OF PARTICIPATION (REFUNDING PROJECT I):								
07/28/04	4.250%	10/01/08	\$ -	\$ -	\$ 6,925	\$ -	\$ 73	\$ 6,998
2004B CERTIFICATES OF PARTICIPATION			\$ -	\$ -	\$ 6,925	\$ -	\$ 73	\$ 6,998

See accompanying independent auditors' report.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2005A CERTIFICATES OF PARTICIPATION (BEAUDRY I-2001C REFUNDING):								
05-24-05	Variable	10-01-08	\$ -	\$ -	\$ 4,200	\$ -	\$ 460	\$ 4,660
05-24-05	Variable	10-01-09	-	-	4,330	-	-	4,330
05-24-05	Variable	10-01-10	-	-	4,475	-	-	4,475
05-24-05	Variable	10-01-11	-	-	4,620	-	-	4,620
05-24-05	Variable	10-01-12	-	-	4,770	-	-	4,770
05-24-05	Variable	10-01-13	-	-	4,925	-	-	4,925
05-24-05	Variable	10-01-14	-	-	5,085	-	-	5,085
05-24-05	Variable	10-01-15	-	-	5,250	-	-	5,250
05-24-05	Variable	10-01-16	-	-	5,425	-	-	5,425
05-24-05	Variable	10-01-17	-	-	5,600	-	-	5,600
05-24-05	Variable	10-01-18	-	-	5,785	-	-	5,785
05-24-05	Variable	10-01-19	-	-	5,970	-	-	5,970
05-24-05	Variable	10-01-20	-	-	6,165	-	-	6,165
05-24-05	Variable	10-01-21	-	-	6,365	-	-	6,365
05-24-05	Variable	10-01-22	-	-	6,575	-	-	6,575
05-24-05	Variable	10-01-23	-	-	6,785	-	-	6,785
05-24-05	Variable	10-01-24	-	-	200	-	-	200

2005A CERTIFICATES OF PARTICIPATION \$ - \$ - \$ 86,525 \$ - \$ 460 \$ 86,985

2005B CERTIFICATES OF PARTICIPATION (BEAUDRY III):

05-24-05	Variable	10-01-07	\$ -	\$ -	\$ 565	\$ -	\$ 55	\$ 620
05-24-05	Variable	10-01-08	-	-	585	-	-	585
05-24-05	Variable	10-01-09	-	-	605	-	-	605
05-24-05	Variable	10-01-10	-	-	625	-	-	625
05-24-05	Variable	10-01-11	-	-	645	-	-	645
05-24-05	Variable	10-01-12	-	-	665	-	-	665
05-24-05	Variable	10-01-13	-	-	685	-	-	685
05-24-05	Variable	10-01-14	-	-	710	-	-	710
05-24-05	Variable	10-01-15	-	-	730	-	-	730
05-24-05	Variable	10-01-16	-	-	755	-	-	755
05-24-05	Variable	10-01-17	-	-	780	-	-	780
05-24-05	Variable	10-01-18	-	-	805	-	-	805
05-24-05	Variable	10-01-19	-	-	830	-	-	830
05-24-05	Variable	10-01-20	-	-	860	-	-	860
05-24-05	Variable	10-01-21	-	-	885	-	-	885
05-24-05	Variable	10-01-22	-	-	915	-	-	915
05-24-05	Variable	10-01-23	-	-	945	-	-	945
05-24-05	Variable	10-01-24	-	-	975	-	-	975
05-24-05	Variable	10-01-25	-	-	1,005	-	-	1,005
05-24-05	Variable	10-01-26	-	-	1,040	-	-	1,040
05-24-05	Variable	10-01-27	-	-	1,075	-	-	1,075
05-24-05	Variable	10-01-28	-	-	1,110	-	-	1,110
05-24-05	Variable	10-01-29	-	-	1,145	-	-	1,145
05-24-05	Variable	10-01-30	-	-	1,180	-	-	1,180
05-24-05	Variable	10-01-31	-	-	1,220	-	-	1,220

2005B CERTIFICATES OF PARTICIPATION \$ - \$ - \$ 21,340 \$ - \$ 55 \$ 21,395

See accompanying independent auditors' report.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
LONG-TERM OBLIGATIONS
SCHEDULE OF CERTIFICATES OF PARTICIPATION (Continued)
June 30, 2005 (Dollars in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2005</u>
2005C CERTIFICATES OF PARTICIPATION (ELA/KING DREW-1996A REFUNDING):								
05-24-05	Variable	10-01-13	\$ -	\$ -	\$ 2,785	\$ -	\$ 179	\$ 2,964
05-24-05	Variable	10-01-14	-	-	2,875	-	-	2,875
05-24-05	Variable	10-01-15	-	-	2,970	-	-	2,970
05-24-05	Variable	10-01-16	-	-	3,065	-	-	3,065
05-24-05	Variable	10-01-17	-	-	3,170	-	-	3,170
05-24-05	Variable	10-01-18	-	-	3,270	-	-	3,270
05-24-05	Variable	10-01-19	-	-	3,380	-	-	3,380
05-24-05	Variable	10-01-20	-	-	3,490	-	-	3,490
05-24-05	Variable	10-01-21	-	-	3,600	-	-	3,600
05-24-05	Variable	10-01-22	-	-	3,720	-	-	3,720
05-24-05	Variable	10-01-23	-	-	3,840	-	-	3,840
05-24-05	Variable	10-01-24	-	-	3,965	-	-	3,965
05-24-05	Variable	10-01-25	-	-	4,095	-	-	4,095
2005C CERTIFICATES OF PARTICIPATION			\$ -	\$ -	\$ 44,225	\$ -	\$ 179	\$ 44,404
GRAND TOTAL			\$ 758,183	\$ 764,960	\$ 209,715	\$ 364,873	\$ 5,594	\$ 615,396

See accompanying independent auditors' report.



SUPPLEMENTAL 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 generally accepted accounting principles.

LOS ANGELES UNIFIED SCHOOL DISTRICT

GENERAL FUND

SCHEDULE OF PRINCIPAL APPORTIONMENT REVENUE FROM THE STATE SCHOOL FUND

For the Year Ended June 30, 2005

BASE REVENUE LIMIT PER A.D.A.

2003-2004 Base Revenue Limit	\$	4,835.13
Inflation Increase		117.00
All Other Adjustments		16.53
2004-2005 BASE REVENUE LIMIT PER A.D.A.	\$	<u>4,968.66</u>

TOTAL STATE REVENUE LIMIT

Base Revenue Limit	\$	4,968.66 x	672,081.28 *	\$	3,339,343,373
Meals for Needy	\$	0.1722 x	100,649,091 Meals Served		17,331,773
Beginning Teachers Salary Incentive Funding					11,476,651
Unemployment Insurance Increase					28,424,574
Necessary Small Continuation High School Increase					368,151
Summer School Core Academic Programs	\$	3.53 x	903,481 Hours		3,189,288
California High School Exit Exam	\$	3.53 x	11,024,097 Hours		38,915,062
Pupil Promotion and Retention and Low Star Score	\$	3.53 x	6,949,994 Hours		24,533,479
Apprentice Allowance	\$	4.86 x	516,375 Hours		2,509,583
Community Day Schools Additional Funding					4,004,045
Transfer of Special Education SDC Revenues to County Offices	\$	4,640.13 x	1.08 A.D.A. **		(5,011)
Transfer of County Community School Revenues to County Offices	\$	4,862.18 x	190.59 A.D.A. **		(926,683)
PERS Reduction (including Safety Adjustment)					<u>(12,225,940)</u>
Total K-12 Revenue Limit					3,456,938,345
Property Taxes and Other Local Revenues					(838,970,789)
Charter Schools In-lieu of Taxes					36,527,912
Fiscally Affiliated Charter Schools General Purpose Block Grant					(29,022,217)
Fiscally Independent Charter Schools Differential					<u>(6,405,923)</u>
Total K-12 State Aid Entitlement					2,619,067,328
State School Deficit					<u>(72,182,930)</u>
2004-2005 Net State Aid K-12 Revenue Limit					2,546,884,398
Prior Year Adjustments					<u>1,790,181</u>
Total State Aid K-12 Revenue Limit					2,548,674,579

ADULT EDUCATION REVENUE LIMIT

Current Year Apportionment	\$	2,292.26 x	67,196.76 A.D.A.***		154,032,445
Prior Year Adjustments					<u>(68,708)</u>
PRINCIPAL APPORTIONMENT - K-12 AND ADULT EDUCATION					2,702,638,316

PRINCIPAL APPORTIONMENT - OTHER STATE REVENUES

ROC/P Entitlement	- Base	\$	2,838.15 x	17,821.93 A.D.A	50,581,311
	- Growth	\$	3,121.18 x	537.88 A.D.A	1,678,820
	- CalWORKS	\$	2,838.15 x	614.00 A.D.A	1,742,624
	- Handicapped				2,249,963
	- Prior Year Adjustments				2,464,485
Special Education	- Instructional Entitlement				304,017,721
	- Special Disabilities Adjustment				25,818,165
	- Regionalized Services/Program Specialists				9,251,122
	- Out of Home Care & Mental Health				20,008,080
	- Low Incidence				1,655,806
	- Infant Apportionment				2,456,875
	- Prior Year Adjustments				3,202,538
Gifted and Talented	- Current Year				5,436,288
	- Prior Year Adjustments				<u>(7,211)</u>

TOTAL PRINCIPAL APPORTIONMENT FROM THE STATE SCHOOL FUND					3,133,194,903
ADULT EDUCATION PORTION					<u>(153,963,737)</u>
GENERAL FUND PORTION					2,979,231,166
PERS REDUCTION					<u>12,225,940</u>
TOTAL PRINCIPAL APPORTIONMENT REVENUE, GENERAL FUND	\$				<u>2,991,457,106</u>

* Consists of K-12 (637,497.18), Special Education (34,392.43), and County ADA: Community (190.59) and SDC (1.08).

** Deficit rates applied are 0.323% on 100% and 1.826% on 99.677%.

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES, EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
REGULAR AND SPECIALLY FUNDED PROGRAMS BY STATE DEFINED OBJECT
For the Year Ended June 30, 2005 (in thousands)

	ORIGINAL BUDGET			FINAL BUDGET		
	Regular	Specially Funded	Total	Regular	Specially Funded	Total
REVENUES AND OTHER SOURCES						
Revenue limit sources	\$ 3,439,450	\$ -	\$ 3,439,450	\$ 3,439,450	\$ -	\$ 3,439,450
Federal revenues	147,655	906,940	1,054,595	118,855	909,888	1,028,743
Other state revenues	1,563,012	405,533	1,968,545	1,559,040	433,226	1,992,266
Other local revenues	65,849	25,407	91,256	68,583	19,978	88,561
Operating transfers in	30,934	-	30,934	29,031	-	29,031
Proceeds from Certificates of Participation	59,459	-	59,459	212,220	-	212,220
Proceeds from CA Energy Commission loan	-	-	-	-	-	-
Proceeds from capital leases	3,888	-	3,888	3,888	-	3,888
Contributions to restricted programs	7,397	(4,557)	2,840	4,679	(4,679)	-
TOTAL REVENUES AND OTHER SOURCES	5,317,644	1,333,323	6,650,967	5,435,746	1,358,413	6,794,159
EXPENDITURES AND OTHER USES						
Current:						
Certificated salaries	2,431,809	440,036	2,871,845	2,545,355	463,871	3,009,226
Classified salaries	799,502	113,713	913,215	777,643	105,173	882,816
Employee benefits	1,160,732	136,097	1,296,829	1,099,695	149,975	1,249,670
Books and supplies	201,373	198,396	399,769	193,779	343,051	536,830
Services and other operating expenditures	480,578	162,011	642,589	459,216	214,021	673,237
Capital outlay	43,497	16,135	59,632	37,528	16,967	54,495
Debt service - principal	7,912	-	7,912	9,880	-	9,880
Debt service - bond, COPs and capital leases interest	120	-	120	901	-	901
Other outgo**	110,955	217,965	328,920	74,937	4,247	79,184
Transfers - support costs	(57,466)	50,597	(6,869)	(42,913)	48,421	5,508
Transfers out	136,924	-	136,924	278,017	64,480	342,497
TOTAL EXPENDITURES AND OTHER USES	5,315,936	1,334,950	6,650,886	5,434,038	1,410,206	6,844,244
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 1,708	\$ (1,627)	\$ 81	\$ 1,708	\$ (51,793)	\$ (50,085)

* Over (Under)

** Includes Tuition for Handicapped Pupils and Transfer to Charter Schools funding in lieu of property taxes. Tuition for Handicapped Pupils is reflected in "Services and Other Operating Expenditures" account in the Basic Financial Statements and in the Schedule of Current Expense of Education - Regular and Specially Funded Programs.

See accompanying independent auditors' report.

ACTUAL			VARIANCE*		
Regular	Specially Funded	Total	Regular	Specially Funded	Total
\$ 3,431,893	\$ -	\$ 3,431,893	\$ (7,557)	\$ -	\$ (7,557)
133,516	663,361	796,877	14,661	(246,527)	(231,866)
1,586,679	303,293	1,889,972	27,639	(129,933)	(102,294)
73,791	11,946	85,737	5,208	(8,032)	(2,824)
28,238	-	28,238	(793)	-	(793)
219,790	-	219,790	7,570	-	7,570
1,318	-	1,318	1,318	-	1,318
1,999	-	1,999	(1,889)	-	(1,889)
4,445	(4,445)	-	(234)	234	-
<u>5,481,669</u>	<u>974,155</u>	<u>6,455,824</u>	<u>45,923</u>	<u>(384,258)</u>	<u>(338,335)</u>
2,554,352	422,871	2,977,223	8,997	(41,000)	(32,003)
774,387	96,526	870,913	(3,256)	(8,647)	(11,903)
1,097,791	130,453	1,228,244	(1,904)	(19,522)	(21,426)
192,241	176,456	368,697	(1,538)	(166,595)	(168,133)
441,145	113,180	554,325	(18,071)	(100,841)	(118,912)
37,663	16,121	53,784	135	(846)	(711)
5,518	-	5,518	(4,362)	-	(4,362)
901	-	901	-	-	-
34,526	-	34,526	(40,411)	(4,247)	(44,658)
(43,154)	37,045	(6,109)	(241)	(11,376)	(11,617)
277,735	64,480	342,215	(282)	-	(282)
<u>5,373,105</u>	<u>1,057,132</u>	<u>6,430,237</u>	<u>(60,933)</u>	<u>(353,074)</u>	<u>(414,007)</u>
\$ <u>108,564</u>	\$ <u>(82,977)</u>	\$ <u>25,587</u>	\$ <u>106,856</u>	\$ <u>(31,184)</u>	\$ <u>75,672</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
GENERAL FUND**
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND OTHER USES, AND UNEXPENDED BALANCES
BY DISTRICT DEFINED PROGRAM**
For the Year Ended June 30, 2005 (in thousands)

	<u>Appropriations</u>	<u>Expenditures and Other Uses</u>	<u>Unexpended Balances</u>
REGULAR PROGRAM			
General Program - Schools	\$ 2,643,955	\$ 2,728,975	\$ (85,020)
General Program - Support Services	352,017	309,974	42,043
General Program - Hourly Intervention/Remediation	61,933	73,422	(11,489)
General Program - Interfund Transfers	215,916	220,345	(4,429)
General Program - Options Programs	72,046	68,857	3,189
Special Education - Schools	1,175,020	1,096,336	78,684
Special Education - Support Services	107,668	108,541	(873)
Special Education - Extended Session	29,584	23,858	5,726
Student Integration - Schools	460,512	458,114	2,398
Student Integration - Support Services	42,762	38,676	4,086
ROC/Skill Centers - Schools	64,894	63,194	1,700
ROC/Skill Centers - Support Services	7,081	7,274	(193)
Routine Repair & Gen Maintenance - Schools	150,704	138,637	12,067
Routine Repair & Gen Maintenance - Support Services	20,076	17,641	2,435
Community Services	22,512	19,261	3,251
Reserves and Resources Allocations	<u>7,358</u>	<u>-</u>	<u>7,358</u>
TOTAL REGULAR PROGRAM	5,434,038	5,373,105	60,933
SPECIALLY FUNDED PROGRAMS	<u>1,410,206</u>	<u>1,057,132</u>	<u>353,074</u>
TOTAL GENERAL FUND	\$ <u>6,844,244</u>	\$ <u>6,430,237</u> *	\$ <u>414,007</u>

* Net of indirect support costs to Adult Education Fund (\$6,109) and Charter Schools (\$2,780).

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
GENERAL FUND
EXPENDITURES AND OTHER USES BY GOAL AND FUNCTION
For the Year Ended June 30, 2005

INSTRUCTION	\$ 4,966,441
SUPPORT SERVICES	
Supervision of instruction	21,032
Library, media, technology and other instructional resources	9,807
School administration	244,507
Pupil support services	75,232
Pupil transportation	6,202
Data processing services	82,015
Plant maintenance and operations	374,297
Facilities rents and leases	28,847
Central administration	143,189
	<u>985,128</u>
OTHER GOALS	
Community services	26,423
Child care and development services	4,891
Food services	1,066
	<u>32,380</u>
FACILITIES ACQUISITION AND CONSTRUCTION	<u>53,662</u>
OTHER OUTGO	
Debt service	6,419
All other outgo	386,207
	<u>392,626</u>
TOTAL EXPENDITURES AND OTHER USES	\$ <u>6,430,237</u>

Source: Program Cost Report, 2004-05

Note: The presentation of this schedule has been modified effective Fiscal Year 2002-03 to conform with Standardized Account Code Structure (SACS) format.

LOS ANGELES UNIFIED SCHOOL DISTRICT

GENERAL FUND

SCHEDULE OF EXPENDITURES BY ORGANIZATIONAL UNIT, CENTRAL SUPPORT SERVICES

ADMINISTERED AND OTHER USES - REGULAR PROGRAM

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

	Certificated Salaries	Classified Salaries
<u>ORGANIZATIONAL UNITS</u>		
BOARD OF EDUCATION SERVICES:		
Board Secretariat	\$ -	\$ 465
Board of Education	20	2,349
Independent Analysis Unit	-	44
TOTAL BOARD OF EDUCATION SERVICES	<u>20</u>	<u>2,858</u>
CENTRAL SUPPORT SERVICES - UNIT OPERATION:		
General Superintendent	2,434	1,206
Legislation/Implementation	-	516
Budget Services & Financial Planning Division	-	3,537
Specially Funded & Parent/Community Program Division	2,268	2,028
Information Technology Division	547	23,144
Accounting & Disbursements Division	-	11,184
Office of the Chief Business and Financial Officer	-	632
Communication/Public Information	118	4,957
Office of Chief Operating Officer	454	925
Business Services Division	-	11,052
Facilities Services Division	107	14,825
Office of the General Counsel	1,313	6,090
Human Resources Division	10,851	8,386
School Police	-	2,080
Office of the Inspector General	-	3,639
Personnel Commission and Staff	-	7,180
Environmental Health and Safety	105	2,524
Risk Management	-	397
Staff Relations	-	-
TOTAL CENTRAL SUPPORT SERVICES - UNIT OPERATION	<u>18,197</u>	<u>104,302</u>
SCHOOLS SERVICES:		
Regular Schools	2,045,611	397,185
Special Education Schools	393,618	222,809
Regional Occupational Centers	31,779	10,224
TOTAL SCHOOLS SERVICES	<u>2,471,008</u>	<u>630,218</u>
SCHOOLS SUPPORT SERVICES:		
Planning, Assessment & Research	4,586	6,718
Division of Adult & Occupational Education	1,720	1,223
Early Childhood Education	380	65
Educational Support Services	331	247
Extended Day Program	842	1,073
Instructional Support Services	5,183	2,907
School Fiscal Services	-	2,429
Special Education Division	11,791	5,010
Student Health & Human Services	17,219	2,089
Volunteer and Tutorial Program	-	64
Local Districts	22,451	4,238
TOTAL SCHOOLS SUPPORT SERVICES	<u>64,503</u>	<u>26,063</u>
TOTAL ORGANIZATIONAL UNITS	<u>2,553,728</u>	<u>763,441</u>

See accompanying independent auditors' report.

Employee Benefits	Books & Supplies	Services & Other Operating Expenditures	Capital Outlay	Other Outgo	Total
\$ 167	\$ 24	\$ 205	\$ -	\$ -	\$ 861
798	382	916	22	-	4,487
59	4	145	-	-	252
<u>1,024</u>	<u>410</u>	<u>1,266</u>	<u>22</u>	<u>-</u>	<u>5,600</u>
912	304	520	-	-	5,376
178	23	271	-	-	988
1,373	137	28	1	-	5,076
1,485	482	2,895	20	-	9,178
9,043	3,070	8,344	4,623	-	48,771
4,904	285	297	105	-	16,775
183	29	12	-	-	856
2,055	327	337	914	-	8,708
431	589	765	3	-	3,167
4,434	683	3,512	36	-	19,717
5,668	3,825	3,678	479	-	28,582
2,169	258	18,384	41	-	28,255
6,060	625	838	1	-	26,761
1,312	677	491	48	-	4,608
1,426	65	416	-	-	5,546
2,974	346	364	10	-	10,874
1,066	338	417	75	-	4,525
136	(5)	17,402	-	-	17,930
-	-	1,167	-	-	1,167
<u>45,809</u>	<u>12,058</u>	<u>60,138</u>	<u>6,356</u>	<u>-</u>	<u>246,860</u>
775,724	153,855	109,795	20,485	-	3,502,655
238,600	5,181	180,219	75	-	1,040,502
13,339	900	6,749	176	-	63,167
<u>1,027,663</u>	<u>159,936</u>	<u>296,763</u>	<u>20,736</u>	<u>-</u>	<u>4,606,324</u>
3,746	609	2,034	-	-	17,693
950	870	526	46	-	5,335
133	95	36	-	-	709
158	135	25	-	-	896
686	52	46	-	-	2,699
2,356	2,795	5,935	651	-	19,827
1,012	186	31	-	-	3,658
4,883	2,852	1,229	-	778	26,543
4,816	1,820	1,677	134	-	27,755
15	-	-	-	-	79
6,261	3,010	2,298	188	-	38,446
<u>25,016</u>	<u>12,424</u>	<u>13,837</u>	<u>1,019</u>	<u>778</u>	<u>143,640</u>
<u>1,099,512</u>	<u>184,828</u>	<u>372,004</u>	<u>28,133</u>	<u>778</u>	<u>5,002,424</u>

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT

GENERAL FUND

SCHEDULE OF EXPENDITURES BY ORGANIZATIONAL UNIT, CENTRAL SUPPORT SERVICES

ADMINISTERED AND OTHER USES - REGULAR PROGRAM (Continued)

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

	Certificated Salaries	Classified Salaries
<u>CENTRAL SUPPORT SERVICES ADMINISTERED</u>		
Bank Charges	\$ -	\$ -
Capital Lease	-	-
Computer Maintenance, Software, Supplies and Equipment	-	68
Custodial, Maintenance and Administrative Office		
Operating Expenses	624	10,006
Hazardous Materials and Energy Conservation Management Expenses	-	168
Instructional TV	-	-
Postage	-	-
Radio Communications Systems	-	-
Replacement of Equipment and Motor Vehicles	-	-
School Police Services	-	260
Telephone Services	-	444
Tuition Reimbursement	-	-
	<u>624</u>	<u>10,946</u>
TOTAL CENTRAL SUPPORT SERVICES ADMINISTERED		
	<u>624</u>	<u>10,946</u>
<u>OTHER USES</u>		
Transfer to Other District Funds:		
Capital Services Fund	-	-
Child Development	-	-
Deferred Maintenance District Contribution	-	-
Special Reserve	-	-
Special Reserve - FEMA - Hazard Mitigation	-	-
Debt Service	-	-
Transfers of Support Charges - Adult Ed	-	-
Transfers of Support Charges - Charter	-	-
Transfers of Support Charges - GF SFP	-	-
Transfer In-lieu of Property Taxes to Charter	-	-
	<u>-</u>	<u>-</u>
TOTAL OTHER USES	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES BY ORGANIZATIONAL UNITS, CENTRAL SUPPORT SERVICES ADMINISTERED AND OTHER USES - REGULAR PROGRAM	\$ <u>2,554,352</u>	\$ <u>774,387</u>

See accompanying independent auditors' report.

Employee Benefits	Books & Supplies	Services & Other Operating Expenditures	Capital Outlay	Other Outgo	Total
\$ -	\$ -	\$ 262	\$ -	\$ -	\$ 262
-	722	(6,174)	1,222	6,228	1,998
23	453	12,407	3,772	-	16,723
(2,099)	4,826	44,092	1,360	-	58,809
58	132	701	-	-	1,059
-	567	66	228	-	861
-	-	534	-	-	534
-	-	589	-	-	589
-	24	100	33	-	157
133	333	21	2,641	-	3,388
164	356	16,424	274	-	17,662
-	-	119	-	-	119
<u>(1,721)</u>	<u>7,413</u>	<u>69,141</u>	<u>9,530</u>	<u>6,228</u>	<u>102,161</u>
-	-	-	-	197,170	197,170
-	-	-	-	8,065	8,065
-	-	-	-	23,300	23,300
-	-	-	-	46,976	46,976
-	-	-	-	2,225	2,225
-	-	-	-	191	191
-	-	-	-	(6,110)	(6,110)
-	-	-	-	(2,780)	(2,780)
-	-	-	-	(37,045)	(37,045)
-	-	-	-	36,528	36,528
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,520</u>	<u>268,520</u>
\$ <u>1,097,791</u>	\$ <u>192,241</u>	\$ <u>441,145</u>	\$ <u>37,663</u>	\$ <u>275,526</u>	\$ <u>5,373,105</u>

**LOS ANGELES UNIFIED SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF CURRENT EXPENSE OF EDUCATION
For the Year Ended June 30, 2005 (in thousands)**

	<u>Total Expense for the Year</u>	<u>Excluded Amounts*</u>	<u>Current Expense of Education</u>	<u>Current Expense of Education per Unit of A.D.A.**</u>
Certificated salaries	\$ 2,977,223	\$ 101,019	\$ 2,876,204	\$ 4,318.26
Classified salaries	870,913	110,982	759,931	1,140.94
Employee benefits (excluding PERS reduction)	1,220,365	237,306	983,059	1,475.94
Books, supplies and equipment replacement	368,805	117,755	251,050	376.92
Services & operating expense and direct support	556,608	233,319	323,289	485.38
TOTAL	\$ 5,993,914	\$ 800,381	\$ 5,193,533	\$ 7,797.44

* Excluded amounts relate to:

Community services	\$ 25,404
Facilities acquisition and construction	38,937
Food services	1,039
Fringe benefits to retirees	179,271
Nonagency	22,857
California state lottery	92,563
IASA	20,099
Targeted Instructional Improvement Grant	75,553
Alternative Certification Program for Intern Teachers	2,582
National Board Certification Teacher Incentive	3,564
Principal's Training	919
Cal Public School Library Act of 1998	3,600
Lottery: instructional materials	14,392
NCLB: Part B & Part D	19,949
School Community Policing Partnerships	807
Regional Occupational Center/Program	1,489
School Safety & Violence Prevention Grades 8-12	8,120
Standardized Account Code Structure	201
Instructional Materials Block Grant	39,483
Instructional Materials-Williams Case	25,849
Immediate Intervention/Underperforming School	11,078
CAL Peer Assistance & Review Program for Teachers	1,146
Child Nutrition: Linking Educ. Activity & Food	143
Pupil Transportation	71,040
Special Education: Nonpublic Agencies/Schools	137,462
Other Expenses	2,834
TOTAL	\$ 800,381

** Revenue Limit A.D.A. (Average Daily Attendance) used is 666,056.73. Amounts rounded to the nearest cent.

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

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

	BALANCES July 1, 2004	ADJUSTMENTS	REVENUES	EXPENDITURES	BALANCES June 30, 2005
Medi-Cal Billing Options	\$ 11,788	\$ 1	\$ 7,424	\$ 13,861	\$ 5,352
COPS MORE Program	35	-	-	-	35
School Improvement & Pupil Achievement Block Grant	3,488	(3,488)	-	-	-
Cal-Safe Supportive Services	567	-	61	465	163
Class Size Reduction - Facilities	3,401	-	-	1,248	2,153
School Facilities Needs Assessment Program	-	-	4,934	-	4,934
Certificated Staff Performance Incentive Bonus	-	-	173	-	173
English Language Acquisition Program, Teacher Training & Student Assistance	-	3,187	12,393	9,863	5,717
English Language & Literacy Intensive Program	-	25,465	(999)	24,466	-
Calif. Public School Library Act of 1998	6,987	-	474	3,651	3,810
Lottery: Instructional Material	3,573	(1)	17,331	14,392	6,511
ROC/P Equipment	-	12	-	12	-
School Safety & Violence Prevention	2,461	-	8,751	8,431	2,781
Special Education Low Incidence	1,574	-	1,656	990	2,240
Standardized Account Code Structure	-	5	206	211	-
Gifted & Talented Education	1,482	(534)	5,429	5,873	504
Instructional Materials: Block Grant	4,853	-	40,121	39,483	5,491
Instructional Materials: English Learner	-	-	6,000	-	6,000
Instructional Materials: API Deciles 1 & 2	-	-	35,841	25,849	9,992
CA Peer Assistance & Review Program	1,288	(293)	2,921	1,160	2,756
Staff Development: Reading & Math	5,172	-	4,948	5,196	4,924
Principals' Training	1,794	1	1,064	938	1,921
Tenth Grade Counseling	447	(129)	1,285	1,025	578
Outdoor Science Program	71	27	-	98	-
Routine Repair & General Maintenance	13,402	140,776	2,100	156,278	-
CEC Loan Expenditures	-	1	1,318	980	339
Certificates of Participation - (Acquisition Accounts) - Proceeds	5,884	(3,107)	214,157	213,889	3,045
Specially Funded Programs	84,029	1	974,155	1,057,132	1,053
TOTALS	\$ 152,296	\$ 161,924	\$ 1,341,743	\$ 1,585,491	\$ 70,472

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

REVENUES AND OTHER SOURCES

Revenue limit sources	\$ 143,364
Federal revenues	20,743
Other state revenues	13,315
Other local revenues	<u>1,124</u>
TOTAL REVENUES AND OTHER SOURCES	<u>178,546</u>

EXPENDITURES AND OTHER USES

Instruction	104,653
Supervision of Instruction	21,734
School Administration	18,546
Guidance & Counseling Services	6,691
Other Pupil Services	191
Other General Administration	3,262
General Administration Cost Transfers	6,109
Plant Maintenance and Operations	10,103
Facilities Acquisition & Construction	386
Facilities Rents and Leases	<u>1,321</u>
TOTAL EXPENDITURES AND OTHER USES	<u>172,996</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	5,550
FUND BALANCE, JULY 1, 2004	<u>1,441</u>
FUND BALANCE, JUNE 30, 2005	<u><u>\$ 6,991</u></u>

Note: The presentation of this schedule has been modified effective Fiscal Year 2004-05 to conform with Standardized Account Code Structure (SACS) format.

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

REVENUES AND OTHER SOURCES

Federal revenues	\$ 21,375
Other state revenues	73,501
Other local revenues	6,384
Operating transfers in	<u>8,065</u>

TOTAL REVENUES AND OTHER SOURCES	<u>109,325</u>
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EXPENDITURES AND OTHER USES

Instruction	71,127
Supervision of Instruction	8,330
School Administration	11,848
Guidance & Counseling Services	43
Health Services	1,147
Community Services	5
Other General Administration	3,647
Plant Maintenance & Operations	6,577
Facilities Acquisition & Construction	2,594
Facilities Rents and Leases	247
Interfund Transfers	<u>2,100</u>

TOTAL EXPENDITURES AND OTHER USES	<u>107,665</u>
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EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,660
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FUND BALANCE, JULY 1, 2004	<u>2,102</u>
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FUND BALANCE, JUNE 30, 2005	<u>\$ 3,762</u>
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Note: The presentation of this schedule has been modified effective Fiscal Year 2004-05 to conform with Standardized Account Code Structure (SACS) format.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
ALL FUNDS
SCHEDULE OF FUND EQUITY
June 30, 2005 (in thousands)

	General Fund	Adult Education Fund	Cafeteria Fund	Child Development Fund	Deferred Maintenance Fund	Bond Interest & Redemption Fund	Tax Override Fund	Capital Services Fund
RESERVED FOR								
Revolving and imprest funds	\$ 2,753	\$ 125	\$ -	\$ 53	\$ -	\$ -	\$ -	\$ -
Inventories	23,314	62	7,577	54	-	-	-	-
Debt service	-	-	-	-	-	211,449	92	12,857
Prepays	-	-	-	-	-	-	-	-
General reserve	1	-	-	-	-	-	-	-
Participants' equity	-	-	-	-	-	-	-	-
Other restricted balances (detail on page 105)	70,472	-	-	-	-	-	-	-
TOTAL RESERVED FUND EQUITY	96,540	187	7,577	107	-	211,449	92	12,857
UNRESERVED								
Designated for:								
Subsequent year expenditures	119,626	1,732	32,612	3,655	56,944	-	-	-
Economic uncertainties	33,269	-	-	-	-	-	-	-
TOTAL DESIGNATED	152,895	1,732	32,612	3,655	56,944	-	-	-
Undesignated fund equity	100,134	5,072	1,044	-	-	-	-	-
TOTAL UNRESERVED FUND EQUITY	253,029	6,804	33,656	3,655	56,944	-	-	-
TOTAL FUND EQUITY	\$ 349,569	\$ 6,991	\$ 41,233	\$ 3,762	\$ 56,944	\$ 211,449	\$ 92	\$ 12,857

See accompanying independent auditors' report.

<u>Building Fund</u>	<u>Building Account - Bond Proceeds</u>	<u>Building Account - Measure K</u>	<u>Building Account - Measure R</u>	<u>State School Building Lease - Purchase Fund</u>	<u>Special Reserve Fund</u>	<u>Special Reserve Fund - FEMA-Earthquake</u>	<u>Special Reserve Fund - FEMA-Hazard Mitigation</u>	<u>Special Reserve Fund - Community Redevelopment Agency</u>
\$ -	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	4,328	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	7,328	-	-	-	-	-	-	-
1,811	257,439	1,040,970	(174,814)	14,138	327,758	469	-	10,455
-	-	-	-	-	-	-	-	-
1,811	257,439	1,040,970	(174,814)	14,138	327,758	469	-	10,455
-	-	-	-	-	-	-	2,225	-
1,811	257,439	1,040,970	(174,814)	14,138	327,758	469	2,225	10,455
<u>\$ 1,811</u>	<u>\$ 264,767</u>	<u>\$ 1,040,970</u>	<u>\$ (174,814)</u>	<u>\$ 14,138</u>	<u>\$ 327,758</u>	<u>\$ 469</u>	<u>\$ 2,225</u>	<u>\$ 10,455</u>

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
ALL FUNDS
SCHEDULE OF FUND EQUITY
June 30, 2005 (in thousands)**

	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	-	-	-	-	10,964	-	5,426	-
General reserve	-	-	-	-	-	-	-	-
Participants' equity	-	-	-	-	-	-	-	445
Other restricted balances (detail on page 105)	-	-	-	-	-	-	-	-
TOTAL RESERVED FUND EQUITY	-	-	-	-	10,964	2,000	5,926	445
UNRESERVED								
Designated for:								
Subsequent year expenditures	133,120	162,338	65,012	19,082	-	-	-	-
Economic uncertainties	-	-	-	-	-	-	-	-
TOTAL DESIGNATED	133,120	162,338	65,012	19,082	-	-	-	-
Undesignated fund equity	-	-	-	-	432	(290,604)	-	-
TOTAL UNRESERVED FUND EQUITY	133,120	162,338	65,012	19,082	432	(290,604)	-	-
TOTAL FUND EQUITY	\$ 133,120	\$ 162,338	\$ 65,012	\$ 19,082	\$ 11,396	\$ (288,604)	\$ 5,926	\$ 445

See accompanying independent auditors' report.



**LOS ANGELES UNIFIED SCHOOL DISTRICT
ALL FUNDS
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended June 30, 2005 (in thousands)**

	SACS Object Code	General Fund	Special Adult Education	Cafeteria	Revenue Child Development
REVENUE LIMIT SOURCES					
Principal Apportionment					
State Aid - Current Year	8011	\$ 2,546,884	\$ 154,033	\$ -	\$ -
Charter School Gen Purpose Entitlement - State Aid	8015	21,422	-	-	-
State Aid - Prior Years	8019	1,790	(69)	-	-
Revenue Limit Transfers					
PERS Reduction Transfer	8092	12,226	-	-	-
ROC Subsidy Transfers from Adult Education	8091	10,600	(10,600)	-	-
Principal Apportionment Net of Transfers		<u>2,592,922</u>	<u>143,364</u>	<u>-</u>	<u>-</u>
Tax Relief Subventions					
Homeowners' Exemptions	8021	7,502	-	-	-
Other Subventions/In-lieu of Taxes	8029	6,566	-	-	-
County & District Taxes					
Secured Roll Taxes	8041	570,465	-	-	-
Unsecured Roll Taxes	8042	28,880	-	-	-
Prior Years' Taxes	8043	24,652	-	-	-
Supplemental Taxes	8044	33,079	-	-	-
Education Revenue Augmentation Fund (ERAF)	8045	171,052	-	-	-
Community Redevelopment Funds	8047	(307)	-	-	-
Penalties/Int. - Delinquent Revenue Limit Taxes	8048	(2,920)	-	-	-
Miscellaneous Funds (EC 41604)					
Royalties and Bonuses	8081	4	-	-	-
Less: Non-Revenue Limit (50%) Adjustment	8089	(2)	-	-	-
Local Revenue Limit Sources		<u>838,971</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE LIMIT SOURCES		<u>3,431,893</u>	<u>143,364</u>	<u>-</u>	<u>-</u>
FEDERAL REVENUES					
Special Education Entitlement Per UDC	8181	115,671	-	-	-
Discretionary Grants	8182	20,066	-	-	-
Child Nutrition Program	8220	-	-	211,504	-
Forest Reserve Funds	8260	21	-	-	-
FEMA	8281	-	-	-	-
Vocational and Applied Technology Education	8290	8,066	5,374	-	-
Adult Ed: ESL	8290	-	13,163	-	-
Bilingual Ed: Discretionary Grant	8290	3,573	-	-	-
Federal Child Care, Center-Based	8290	-	-	-	21,285
Child Nutrition: Nutrition Education	8290	6,292	-	-	-
Donated Commodities	8290	-	-	15,136	-
NCLB/IASA	8290	605,406	-	-	-
JTPA - Excess Authority	8290	1,605	-	-	-
Medical Billing Option	8290	7,424	-	-	-
Workforce Investment Act (WIA)	8290	1,212	219	-	-
Other Federal Revenues	8290	27,541	1,987	-	90
TOTAL FEDERAL REVENUES		<u>796,877</u>	<u>20,743</u>	<u>226,640</u>	<u>21,375</u>

See accompanying independent auditors' report.

<u>Funds</u>		<u>Debt</u>	<u>Capital</u>	<u>Internal</u>	<u>Non-</u>	
<u>Deferred</u>	<u>Total</u>	<u>Service</u>	<u>Projects</u>	<u>Service</u>	<u>expendable</u>	<u>Total</u>
<u>Maintenance</u>		<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Trust</u>	
					<u>Funds</u>	
\$ -	\$ 154,033	\$ -	\$ -	\$ -	\$ -	\$ 2,700,917
-	-	-	-	-	-	21,422
-	(69)	-	-	-	-	1,721
-	-	-	-	-	-	12,226
-	(10,600)	-	-	-	-	-
-	143,364	-	-	-	-	2,736,286
-	-	-	-	-	-	7,502
-	-	-	-	-	-	6,566
-	-	-	-	-	-	570,465
-	-	-	-	-	-	28,880
-	-	-	-	-	-	24,652
-	-	-	-	-	-	33,079
-	-	-	-	-	-	171,052
-	-	-	-	-	-	(307)
-	-	-	-	-	-	(2,920)
-	-	-	-	-	-	4
-	-	-	-	-	-	(2)
-	-	-	-	-	-	838,971
-	143,364	-	-	-	-	3,575,257
-	-	-	-	-	-	115,671
-	-	-	-	-	-	20,066
-	211,504	-	-	-	-	211,504
-	-	-	-	-	-	21
-	-	-	5,993	-	-	5,993
-	5,374	-	-	-	-	13,440
-	13,163	-	-	-	-	13,163
-	-	-	-	-	-	3,573
-	21,285	-	-	-	-	21,285
-	-	-	-	-	-	6,292
-	15,136	-	-	-	-	15,136
-	-	-	-	-	-	605,406
-	-	-	-	-	-	1,605
-	-	-	-	-	-	7,424
-	219	-	-	-	-	1,431
-	2,077	-	-	-	-	29,618
-	268,758	-	5,993	-	-	1,071,628

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
ALL FUNDS
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES (Continued)
For the Year Ended June 30, 2005 (in thousands)

	SACS Object Code	General Fund	Adult Education	Special Cafeteria	Revenue Child Development
OTHER STATE REVENUES					
Principal Apportionment					
ROC/P Entitlement - Current Year	8311	\$ 56,253	\$ -	\$ -	\$ -
- Prior Years	8319	2,464	-	-	-
Spec. Ed. Master Plan - Current Year	8311	363,208	-	-	-
- Prior Years	8319	3,203	-	-	-
Gifted and Talented Pupils - Current Year	8311	5,436	-	-	-
- Prior Years	8319	(7)	-	-	-
Special Purpose Apportionment					
Home-to-School Transportation	8311	42,697	-	-	-
School Improvement Program	8311	42,501	-	-	-
Economic Impact Aid	8311	114,199	-	-	-
Special Ed Transportation	8311	43,096	-	-	-
Special Instructional Allowances					
Year Round School Incentive	8425	82,875	-	-	-
Class Size Reduction Grades K-3	8434	212,294	-	-	-
Class Size Reduction Grades 9-12	8435	14,970	-	-	-
Charter School Categorical Block Grant	8480	1,931	-	-	-
Other State Revenues					
Child Nutrition Program	8520	-	-	14,114	-
Children Centers Apportionment	8530	-	-	-	59,032
Deferred Maintenance Allowance	8540	-	-	-	-
School Facilities Apportionment	8545	-	-	-	-
Mandated Costs Reimbursements	8550	13,934	-	-	-
State Lottery Revenue	8560	113,664	-	-	-
Tax Relief Subventions - Restricted Levies					
Homeowners' Exemptions	8571	-	-	-	-
Instructional Material Block Grant (IMA)	8590	39,629	-	-	-
Instructional Material Block Grant (API Deciles 1&2)	8590	35,658	-	-	-
Instructional Material Block Grant (English Learners)	8590	6,000	-	-	-
Math & Reading Professional Development	8590	4,948	-	-	-
School Facilities Needs Assessment Program	8590	4,934	-	-	-
Staff Development Buyout	8590	22,744	-	-	-
CalWORKs	8590	13,359	28	-	-
Community-Based English Tutoring	8590	-	10,762	-	-
Beginning Teacher Support and Assessment	8590	5,928	-	-	-
English Language Learners	8590	12,393	-	-	-
School Safety & Violence Prevention Gr 8-12	8590	8,751	-	-	-
High Priority Schools Grant	8590	71,736	-	-	-
After School Learning & Safe Neighborhood	8590	17,817	-	-	-
Targeted Instructional Improvement Program	8590	481,126	-	-	-
Immediate Intervention/Underperforming Schools	8590	11,537	-	-	-
State Preschool	8590	-	-	-	10,242
All Other State Revenues	8590	40,694	2,525	-	4,227
TOTAL OTHER STATE REVENUES		1,889,972	13,315	14,114	73,501

See accompanying independent auditors' report.

Funds		Debt Service Funds	Capital Projects Funds	Internal Service Funds	Non- expendable Trust Funds	Total
Deferred Maintenance	Total					
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,253
-	-	-	-	-	-	2,464
-	-	-	-	-	-	363,208
-	-	-	-	-	-	3,203
-	-	-	-	-	-	5,436
-	-	-	-	-	-	(7)
-	-	-	-	-	-	42,697
-	-	-	-	-	-	42,501
-	-	-	-	-	-	114,199
-	-	-	-	-	-	43,096
-	-	-	-	-	-	82,875
-	-	-	-	-	-	212,294
-	-	-	-	-	-	14,970
-	-	-	-	-	-	1,931
-	14,114	-	-	-	-	14,114
-	59,032	-	-	-	-	59,032
30,104	30,104	-	-	-	-	30,104
-	-	-	85,803	-	-	85,803
-	-	-	-	-	-	13,934
-	-	-	-	-	-	113,664
-	-	2,825	-	-	-	2,825
-	-	-	-	-	-	39,629
-	-	-	-	-	-	35,658
-	-	-	-	-	-	6,000
-	-	-	-	-	-	4,948
-	-	-	-	-	-	4,934
-	-	-	-	-	-	22,744
-	28	-	-	-	-	13,387
-	10,762	-	-	-	-	10,762
-	-	-	-	-	-	5,928
-	-	-	-	-	-	12,393
-	-	-	-	-	-	8,751
-	-	-	-	-	-	71,736
-	-	-	-	-	-	17,817
-	-	-	-	-	-	481,126
-	-	-	-	-	-	11,537
-	10,242	-	-	-	-	10,242
-	6,752	-	40	-	-	47,486
30,104	131,034	2,825	85,843	-	-	2,109,674

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
ALL FUNDS
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES (Continued)
For the Year Ended June 30, 2005 (in thousands)

	SACS Object Code	General Fund	Special Adult Education	Cafeteria	Revenue Child Development
OTHER LOCAL REVENUES					
County and District Taxes					
Other Restricted & Voted Indebtedness Levies					
Secured Roll	8611	\$ -	\$ -	\$ -	\$ -
Unsecured Roll	8612	-	-	-	-
Prior Years' Taxes	8613	-	-	-	-
Supplemental Taxes	8614	-	-	-	-
Non-Ad Valorem Taxes Parcel Taxes	8621	-	-	-	-
Community Redevelopment Funds not Subject to Revenue Limit Deduction	8625	-	-	-	-
Sales					
Sale of Equipment/Supplies	8631	176	-	-	-
Food Service Sales	8634	-	-	20,458	-
Leases and Rentals	8650	4,147	-	-	-
Interest on Deposit	8660	18,493	534	162	-
Net Increase (Decrease) on the Fair Value of investments	8662	-	-	-	-
Fees and Contracts					
Adult Education Fees	8671	-	395	-	-
Non-Resident Students	8672	(13)	-	-	-
Child Development Parent Fees	8673	-	-	-	1,625
In-District Premiums/Contributions	8674	-	-	-	-
Mitigation/Developer Fees	8681	-	-	-	-
All Other Fees and Contracts	8689	3,880	-	-	-
Other Local Revenues					
Misc Funds Non-Rev Limit (50%) Adjustments	8691	2	-	-	-
All Other Local Revenues	8699	51,451	195	26	4,759
Charter Schools Funding In-lieu of Property Taxes	8780	7,601	-	-	-
TOTAL OTHER LOCAL REVENUES		85,737	1,124	20,646	6,384
SUBTOTAL - REVENUES		6,204,479	178,546	261,400	101,260
OTHER FINANCING SOURCES					
Interfund Transfers In					
From General Fund	8911	-	-	-	8,065
From Special Reserve Fund	8912	26,166	-	-	-
From All Other Funds	8913	-	-	-	-
From General, Special Reserve, & Building Funds	8915	-	-	-	-
Other Authorized Interfund Transfers In	8919	2,072	-	-	-
Subtotal, Interfund Transfers In		28,238	-	-	8,065
Other Sources					
Proceeds from Sale of Bonds	8953	-	-	-	-
Proceeds from Refunding Bonds Issued		-	-	-	-
Proceeds from Certificates of Participation	8971	219,790	-	-	-
Proceeds from Capital Leases	8972	1,999	-	-	-
All Other Financing Sources	8979	1,318	-	-	-
Subtotal, Other Sources		223,107	-	-	-
TOTAL OTHER FINANCING SOURCES		251,345	-	-	8,065
TOTAL REVENUES AND OTHER FINANCING SOURCES		\$ 6,455,824	\$ 178,546	\$ 261,400	\$ 109,325

See accompanying independent auditors' report.

<u>Funds</u> <u>Deferred</u> <u>Maintenance</u>	<u>Total</u>	<u>Debt</u> <u>Service</u> <u>Funds</u>	<u>Capital</u> <u>Projects</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>	<u>Non-</u> <u>expendable</u> <u>Trust</u> <u>Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 258,363	\$ -	\$ -	\$ -	\$ 258,363
-	-	14,444	-	-	-	14,444
-	-	9,476	-	-	-	9,476
-	-	15,042	-	-	-	15,042
-	-	1,442	-	-	-	1,442
-	-	-	3,393	-	-	3,393
-	-	-	-	-	-	176
-	20,458	-	-	-	-	20,458
-	-	-	188	-	-	4,335
764	1,460	2,320	41,742	10,582	76	74,673
-	-	(40)	2,020	-	-	1,980
-	395	-	-	-	-	395
-	-	-	-	-	-	(13)
-	1,625	-	-	-	-	1,625
-	-	-	-	847,221	-	847,221
-	-	-	77,480	-	-	77,480
-	-	-	-	24	-	3,904
-	-	-	-	-	-	2
-	4,980	8,739	-	-	-	65,170
-	-	-	-	-	-	7,601
<u>764</u>	<u>28,918</u>	<u>309,786</u>	<u>124,823</u>	<u>857,827</u>	<u>76</u>	<u>1,407,167</u>
<u>30,868</u>	<u>572,074</u>	<u>312,611</u>	<u>216,659</u>	<u>857,827</u>	<u>76</u>	<u>8,163,726</u>
-	8,065	7,540	-	-	-	15,605
-	-	-	112,765	-	-	138,931
-	-	-	7,613	-	-	7,613
23,300	23,300	-	-	-	-	23,300
-	-	393,326	17,214	-	-	412,612
<u>23,300</u>	<u>31,365</u>	<u>400,866</u>	<u>137,592</u>	<u>-</u>	<u>-</u>	<u>598,061</u>
-	-	-	204,124	-	-	204,124
-	-	235,463	-	-	-	235,463
-	-	-	-	-	-	219,790
-	-	-	-	-	-	1,999
-	-	-	-	-	-	1,318
-	-	235,463	204,124	-	-	662,694
<u>23,300</u>	<u>31,365</u>	<u>636,329</u>	<u>341,716</u>	<u>-</u>	<u>-</u>	<u>1,260,755</u>
<u>\$ 54,168</u>	<u>\$ 603,439</u>	<u>\$ 948,940</u>	<u>\$ 558,375</u>	<u>\$ 857,827</u>	<u>\$ 76</u>	<u>\$ 9,424,481</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
CHARTER SCHOOLS
June 30, 2005

	<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 Pacific Palisades Elementary	x		Yes
8 Revere Middle School	x		Yes
9 Topanga Elementary	x		Yes
10 Westwood Elementary	x		Yes
11 Academia Semillas del Pueblo		x	No
12 Accelerated Charter		x	No
13 Accelerated Elementary		x	No
14 Accelerated High School		x	No
15 Animo South Los Angeles Senior High		x	No
16 Animo Venice Charter High School		x	No
17 Bert Corona Charter School		x	No
18 CA Academy for Liberal Studies		x	No
19 CA Academy for Liberal Studies #2		x	No
20 Camino Nuevo Charter Academy		x	No
21 Camino Nuevo Charter High School		x	No
22 Camino Nuevo Charter Middle School		x	No
23 Central City Value School		x	No
24 Chime Charter Middle School		x	No
25 Chime Charter School		x	No
26 City Life Downtown Charter School		x	No
27 College-Ready Academy High School		x	No
28 Community Charter Middle School		x	No
29 Community Harvest Charter		x	No
30 Cornerstone Prep Charter School		x	No
31 Crenshaw Arts-Technology High School		x	No
32 Culture & Language Academy of Success		x	No
33 Discovery Charter Prep		x	No
34 Downtown Value School		x	No
35 Fenton Avenue School		x	No
36 Granada Hill High School		x	No
37 Imagine Academy		x	No
38 Ivy Academia		x	No
39 Jardin de la Infancia		x	No
40 KIPP Academy of Opportunity		x	No
41 KIPP LA College Prep		x	No
42 LA Leadership Academy Charter School		x	No
43 Lakeview Charter School		x	No
44 LEAP HS (LA Achievement Partnership SH)		x	No
45 Magnolia Science Academy		x	No
46 Milagro Charter Elementary		x	No
47 Montague Street School		x	No
48 Multicultural Learning Center		x	No
49 N.E.W. Academy of Science & Arts		x	No
50 New Designs		x	No

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
CHARTER SCHOOLS
June 30, 2005**

	<u>Fiscally Dependent</u>	<u>Fiscally Independent</u>	<u>Included in the District Audit</u>
51 Ocean School Charter		x	No
52 Oscar De La Hoya Animo Senior High		x	No
53 Pacifica Community Charter School		x	No
54 Pacoima Elementary		x	No
55 Palisades Charter High School		x	No
56 Para Los Ninos Charter		x	No
57 Puente Charter		x	No
58 Renaissance Academy Senior High		x	No
59 Renaissance Arts Academy		x	No
60 Santa Monica Community Charter School		x	No
61 SCAAS (Southern California Academy of Arts and Sciences)		x	No
62 Stella Academy Charter School		x	No
63 Synergy Charter School		x	No
64 Valley Community Center		x	No
65 Vaughn Next Century Learning Center		x	No
66 View Park Prep Accelerated Charter High School		x	No
67 View Park Prep Accelerated Charter School		x	No
68 View Park Prep Accelerated Middle School Charter		x	No
69 Watts Learning Center Charter School		x	No

See accompanying independent auditors' report.



**STATISTICAL
SECTION**

STATISTICAL INFORMATION

The Statistical Section includes statistical tables and schedules, which reflect social and economic data, financial trends, and the fiscal capacity of the District. Statistical tables differ from financial statements in that they usually cover more than two fiscal years and may present non-accounting data. This Section gives users a better historical perspective and assists in assessing the current financial status and trends of the District.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUND TYPES
EXPENDITURES AND OTHER USES BY GOAL AND FUNCTION
For the Years Ended June 30, 2003, 2004 and 2005 (in thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
INSTRUCTIONAL GOALS			
General Education	\$ 3,673,054	\$ 3,741,979	\$ 3,935,655
Special Education	1,166,539	1,214,874	1,195,855
Others	<u>97,706</u>	<u>99,995</u>	<u>94,496</u>
	<u>4,937,299</u>	<u>5,056,848</u>	<u>5,226,006</u>
NONINSTRUCTIONAL GOALS			
Community Services	25,371	24,258	26,423
Child Care Services	<u>6,920</u>	<u>5,234</u>	<u>7,887</u>
	<u>32,291</u>	<u>29,492</u>	<u>34,310</u>
SUPPORT SERVICES	<u>1,195,756</u>	<u>1,207,134</u>	<u>1,058,764</u>
FACILITIES ACQUISITION	<u>853,255</u>	<u>1,219,838</u>	<u>1,522,494</u>
FOOD SERVICES	<u>220,978</u>	<u>212,280</u>	<u>222,640</u>
OTHER OUTGO			
Debt Service	201,782	346,196	344,171
All Other Outgo	<u>264,457</u>	<u>214,487</u>	<u>1,210,136</u>
	<u>466,239</u>	<u>560,683</u>	<u>1,554,307</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 7,705,818</u>	<u>\$ 8,286,275</u>	<u>\$ 9,618,521</u>

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)**

<u>FISCAL YEAR</u>	<u>CERTIFICATED SALARIES</u>	<u>CLASSIFIED SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>BOOKS AND SUPPLIES</u>	<u>SERVICES AND OTHER OPER. EXP. (1)</u>
1995-1996	\$ 1,825,778	\$ 633,980	\$ 573,300	\$ 229,375	\$ 304,356
1996-1997	1,960,176	660,150	613,537	248,012	341,712
1997-1998	2,160,655	724,673	639,210	317,490	418,594
1998-1999	2,401,413	813,977	660,532	324,847	489,093
1999-2000	2,512,041	878,749	763,856	393,713	587,450
2000-2001	2,856,783	981,602	845,340	475,529	629,724
2001-2002	2,949,992	1,044,050	1,056,848 (2)	492,982	650,543
2002-2003	3,036,964	1,056,274	1,207,073	490,211	757,868
2003-2004	3,055,482	1,065,409	1,312,887	468,036	821,490
2004-2005	3,110,756	1,069,595	1,349,301	499,411	646,373

NOTES:

- (1) "Other Outgo" includes Tuition for Handicapped Pupils and Transfer to Charter Schools funding in-lieu of property taxes. Tuition for Handicapped Pupils is reflected under "Services and Other Operating Expenditures" in the Basic Financial Statements.
- (2) Beginning 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.

<u>CAPITAL OUTLAY</u>	<u>DEBT SERVICE</u>	<u>OTHER OUTGO</u> (1)	<u>OPERATING TRANSFERS OUT</u>	<u>TOTAL EXPENDITURES AND OTHER USES</u>
\$ 172,746	\$ 59,882	\$ 20,472	\$ 96,526	\$ 3,916,415
165,661	60,693	18,365	173,346	4,241,652
341,979	108,407	27,363	217,664	4,956,035
416,356	146,470	56,490	119,144	5,428,322
359,124	51,662	42,582	422,092	6,011,269
409,618	132,517	71,389	295,058	6,697,560
756,064	217,078	(387) (2)	360,338	7,527,508
691,793	201,782	(145)	263,998	7,705,818
1,003,568	346,196	41,273	171,934	8,286,275
1,398,243	344,171	602,610	598,061	9,618,521

LOS ANGELES UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUND TYPES - REVENUES BY SOURCE (SACS REPORT CATEGORIES)
LAST TEN FISCAL YEARS (in thousands)

<u>FISCAL YEAR</u>	<u>REVENUE LIMIT SOURCES</u>	<u>FEDERAL</u>	<u>OTHER STATE</u>	<u>OTHER LOCAL</u>	<u>OTHER FINANCING SOURCES</u>	<u>TOTAL</u>
1995-1996	\$ 2,179,314	\$ 404,939	\$ 1,111,747	\$ 119,290	\$ 135,877	\$ 3,951,167
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

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE FISCAL YEARS (Dollars in thousands)**

<u>FISCAL YEAR</u>	<u>TOTAL TAX LEVY</u>	<u>ERAF FUNDS⁽²⁾</u>	<u>CURRENT TAX COLLECTIONS</u>	<u>DELINQUENT & OTHER UNPAID TAX LEVIES⁽¹⁾</u>	<u>CURRENT DELINQUENCY RATE⁽³⁾</u>
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

⁽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
ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS (Dollars 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			
1995-1996	\$ 204,249,354	\$ 15,537,813	\$ 219,787,167	\$ (9,114,766)	(3.98) %	695,355	\$	316
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

* SOURCE: 2004-2005 Los Angeles County Auditor-Controller "Taxpayers' Guide"

** A.D.A. - Average Daily Attendance, Annual Report

*** Adjusted to exclude fiscally independent charter schools

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**

<u>FISCAL YEAR</u>	<u>UNIFIED GENERAL</u>	<u>UNIFIED BONDS</u>	<u>TOTAL SCHOOLS TAX</u>	<u>STATE-WIDE FOR ALL AGENCIES</u>
1995-1996	0.003358	-	0.003358	1.000000
1996-1997	0.003338	-	0.003338	1.000000
1997-1998	0.001622	0.010395	0.012017	1.000000
1998-1999	0.000328	0.024421	0.024749	1.000000
1999-2000	0.000373	0.031155	0.031528	1.000000
2000-2001	0.000363	0.040402	0.040765	1.000000
2001-2002	-	0.048129	0.048129	1.000000
2002-2003	0.000107	0.036866	0.036973	1.000000
2003-2004	0.000160	0.076985	0.077145	1.000000
2004-2005	0.000143	0.088696	0.088839	1.000000

SOURCE: 2004-2005 Los Angeles County Auditor-Controller "Taxpayers' Guide"

See accompanying independent auditors' report.

<u>TOTAL DISTRICT TAX</u>	<u>METROPOLITAN WATER DISTRICT</u>	<u>LOS ANGELES COUNTY GENERAL</u>	<u>CITY OF LOS ANGELES DISTRICT NO.1</u>	<u>COUNTY FLOOD CONTROL DISTRICT</u>
1.003358	0.008900	0.001814	0.038012	0.000963
1.003338	0.008900	0.001604	0.035969	0.001991
1.012017	0.008900	0.001584	0.031098	0.002197
1.024749	0.008900	0.001451	0.030161	0.001953
1.031528	0.008900	0.001422	0.031113	0.001765
1.040765	0.008800	0.001314	0.026391	0.001552
1.048129	0.007700	0.001128	0.040051	0.001073
1.036973	0.006700	0.001033	0.042312	0.000881
1.077145	0.006100	0.000992	0.050574	0.000462
1.088839	0.005800	0.000923	0.055733	0.000245

**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 (Dollars in thousands)**

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL DEBT SERVICE (1)</u>	<u>TOTAL GENERAL GOVERNMENTAL EXPENDITURES</u>	<u>RATIO OF DEBT SERVICE TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES</u>
1995-1996	\$ 28,636	\$ 12,213	\$ 40,849	\$ 3,916,415	1.04 %
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

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
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2005 (in thousands)

Assessed valuation (net taxable)	\$ 328,818,215
Plus exempt property	<u>3,106,922</u>
TOTAL ASSESSED VALUATION	\$ <u>331,925,137</u>
 Debt limit - 2.5% of Assessed Valuation per Education Code Section 15106 (1)	 \$ 8,298,128
 Bonded Debt:	
General Obligation Bonds	\$ 4,479,633
 Assets available for payment of principal:	
Bond Interest & Redemption Fund	<u>(211,449)</u>
Total amount of debt applicable to debt limit	<u>4,268,184</u>
 LEGAL DEBT MARGIN (bonded debt) (2)	 \$ <u>4,029,944</u>

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

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

SOURCE: 2004-2005 Los Angeles County Auditor-Controller "Taxpayers Guide".

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)**

<u>FISCAL YEAR</u>	<u>POPULATION LOS ANGELES UNIFIED *</u>	<u>TOTAL ASSESSED VALUE</u>	<u>GROSS DEBT (1)</u>	<u>DEBT SERVICE MONIES AVAILABLE</u>	<u>NET DEBT (1)</u>	<u>RATIO OF NET DEBT TO ASSESSED VALUE</u>	<u>NET DEBT PER CAPITA</u>
1995-1996	4,431,915	\$ 219,787,167	\$ 193,840	\$ 33,750	\$ 160,090	0.0728	\$ 36
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

* Estimate

(1) Includes bonded debts (General Obligation Bonds) and COPs.

Sources: Los Angeles County Auditor-Controller "Taxpayers' Guide".
Los Angeles County Department of Regional Research Section.
Office of Education, Information Analysis Unit.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2005 (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 %	\$	4,479,633
Certificates of Participation	100.000		615,396
			<u>5,095,029</u>
Overlapping:			
Los Angeles County	46.161		7,480
Los Angeles County General Fund Obligations	46.161		641,384
Los Angeles County Pension Obligations	46.161		609,719
Los Angeles County Superintendent of Schools Certificates of Participation	46.161		10,971
Los Angeles County Flood Control District	46.653		56,861
Metropolitan Water District	23.526		98,666
Los Angeles Community College District	81.734		603,753
San Gabriel Valley Mosquito Abatement District Certificates of Participation	0.193		2
City of Los Angeles	99.915		1,417,774
City of Los Angeles General Fund and Judgment Obligations	99.915		1,234,203
Other Cities General Fund Obligations	various		124,562
Los Angeles County Sanitation Districts Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	various		61,236
Los Angeles County Regional Park & Open Space Assessment District	46.161		161,420
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.000		100,410
City Community Facilities Districts	100.000		146,680
City of Los Angeles Assessment District #1	100.000		12,311
City of Los Angeles Landscaping and Special Tax Assessment District	99.915		193,131
Other City and Special District 1915 Act Bonds	100.000		30,681
Other Cities	various		13,935
Palos Verdes Library District	4.883		551
Total Overlapping			<u>5,525,730</u>
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT			10,620,759 ⁽¹⁾
Less: LA County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)			25,548
City Self-supporting bonds			<u>15,107</u>
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT			\$ <u>10,580,104</u>
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05		\$ <u>1,219</u>	

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

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

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS (in thousands)**

<u>Year</u>	<u>Population City of Los Angeles</u>	<u>Population Los Angeles Unified *</u>	<u>Population County of Los Angeles</u>	<u>School Enrollment County of Los Angeles</u>	<u>School Enrollment Los Angeles Unified</u>	<u>Unemployment Rate County of Los Angeles</u>
1995-1996	3,638	4,432	9,370	1,509	819	7.7
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

* Estimate

Sources: Los Angeles County Office of Regional Planning Research Unit.
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
PERMIT VALUATIONS, UNITS OF CONSTRUCTION AND BANK DEPOSITS
LAST FIVE YEARS (Dollars in millions)

<u>YEAR</u>	<u>Permit Valuations Residential*</u>	<u>New Dwelling Units*</u>			<u>Bank Deposits County of Los Angeles</u>
		<u>Single Family</u>	<u>Multi- Family</u>	<u>Total Units</u>	
2000	558,740	1,687	4,880	6,567	\$ 93,676
2001	720,277	1,587	5,475	7,062	106,058
2002	939,202	1,215	4,458	5,673	115,003
2003	844,447	1,361	6,071	7,432	136,774
2004	1,406,699	1,720	10,620	12,340	132,650

* City of Los Angeles

Sources: Economic Sciences Corporation.
Federal Deposit Insurance Corporation (FDIC) - Commercial Banks.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
LARGEST LOCAL SECURED TAXPAYERS
June 30, 2005 (Dollars in thousands)**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2004-2005 Assessed Valuation</u>	<u>% of Total</u> ⁽¹⁾
1. Douglas Emmett Realty Funds	Office Building	\$ 1,345,293	0.43 %
2. Universal Studios LLC	Motion Picture Studio	1,286,003	0.41
3. Arden Realty Finance Partnership	Office Building	895,746	0.29
4. Anheuser Busch, Inc.	Industrial	764,527	0.25
5. One Hundred Towers LLC	Office Building	521,447	0.17
6. Maguire Partners, 355 S. Grand LLC	Office Building	460,856	0.15
7. Dusenber Investment Company	Office Building	375,442	0.12
8. Paramount Pictures Corp.	Motion Picture Studio	359,197	0.12
9. Century City Mall LLC	Shopping Center Mall	336,759	0.11
10. Trizecahn Hollywood LLC	Retail/Entertainment	326,624	0.10
11. 1999 Stars LLC	Office Building	315,671	0.10
12. AP Properties Ltd.	Commercial	310,577	0.10
13. Casden Properties	Apartments	289,765	0.09
14. Twentieth Century Fox Film Corp.	Motion Picture Studio	287,958	0.09
15. Maguire Partners 555 W. Fifth LLC	Office Building	283,000	0.09
16. Prime Park La Brea Holdings	Apartments	275,724	0.09
17. South Hope Street LLC	Office Building	275,041	0.09
18. TPG Plaza Investments LLC	Office Building	275,041	0.09
19. 2121 Avenue of the Stars LLC	Office Building	260,000	0.08
20. Donald T. Sterling	Apartments	257,073	0.08
		<u>\$ 9,501,744</u>	<u>3.05 %</u>

⁽¹⁾ 2004-2005 Assessed Valuation: \$311,419,822.

Source: California Municipal Statistics, Inc.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
REVENUE LIMIT PER UNIT OF AVERAGE DAILY ATTENDANCE
LAST TEN FISCAL YEARS**

<u>FISCAL YEAR</u>	<u>K-12 BASE LIMIT</u>	<u>ADULT BASE LIMIT</u>
1995-1996	\$ 3,613.58	\$ 1,824.00
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

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
AVERAGE DAILY ATTENDANCE/HOURS OF ATTENDANCE
(ANNUAL REPORT)
LAST TEN FISCAL YEARS**

	1995-1996	1996-1997	1997-1998	1998-1999
Elementary:				
Kindergarten	60,046	60,684	59,312	55,963
Grades 1-3	166,725	175,427	181,125	180,558
Grades 4-6	140,963	145,147	149,046	148,901
Grades 7-8	83,098	83,236	85,286	83,670
Special Education	18,699	20,173	21,310	20,927
County Special Education*	-	-	-	-
Opportunity Schools	136	115	72	63
Home or Hospital	174	172	167	201
Community Day Schools	-	23	85	77
County Community Schools	-	-	-	-
TOTAL ELEMENTARY	469,841	484,977	496,403	490,360
Secondary:				
Regular Classes	139,276	143,259	145,396	137,758
Special Education	7,617	8,217	8,448	8,780
County Special Education*	-	-	-	-
Compulsory Continuation Education	3,124	3,232	3,231	2,944
Opportunity Schools	1,351	1,089	956	875
Home or Hospital	102	102	113	93
Community Day Schools	-	52	236	264
County Community Schools*	-	-	-	-
TOTAL SECONDARY	151,470	155,951	158,380	150,714
Dependent Charter Schools*				
Revenue Limit Funded Charters	-	-	-	-
TOTAL DEP. CHARTER SCHOOLS	-	-	-	-
Adult Program:				
ROC/P Mandated	16,419	16,190	17,225	17,892
Classes for Adults - Mandated	54,884	58,397	56,893	57,684
Concurrently Enrolled Adults	2,741	2,396	2,305	2,455
Full-time Independent Study**	-	-	-	-
TOTAL ADULT PROGRAM	74,044	76,983	76,423	78,031
TOTAL AVERAGE DAILY ATTENDANCE	695,355	717,911	731,206	719,105

Summer School Hours of Attendance

Elementary	3,396,642	3,373,060	3,443,886	3,487,072
Secondary	4,585,736	4,861,894	5,230,377	4,792,230
Dependent Charter	-	-	-	-
TOTAL HOURS	7,982,378	8,234,954	8,674,263	8,279,302

* 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.

1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
55,675	52,649	52,071	50,741	49,775	48,806
180,409	172,706	176,474	173,178	169,239	160,224
156,334	156,021	156,347	156,944	159,617	159,615
86,023	87,223	90,474	93,818	97,978	94,396
22,680	22,327	23,130	23,302	23,585	22,107
-	-	4	6	8	-
60	92	97	13	8	14
210	203	203	164	152	158
148	159	141	190	196	190
-	7	12	17	10	19
<u>501,539</u>	<u>491,387</u>	<u>498,953</u>	<u>498,373</u>	<u>500,568</u>	<u>485,529</u>
140,440	137,439	142,870	148,631	150,239	152,901
8,700	9,634	10,219	10,393	11,026	11,274
-	-	17	17	21	1
2,769	2,785	2,858	2,866	3,031	3,171
820	875	912	430	328	400
99	94	90	88	96	121
297	255	238	674	733	736
-	244	149	143	127	175
<u>153,125</u>	<u>151,326</u>	<u>157,353</u>	<u>163,242</u>	<u>165,601</u>	<u>168,779</u>
-	19,952	20,010	17,681	5,143	5,990
-	19,952	20,010	17,681	5,143	5,990
18,813	18,865	19,846	19,233	20,125	19,110
56,408	55,781	63,355	63,590	62,570	61,748
2,524	2,982	3,170	4,015	4,592	5,446
-	-	1	3	6	3
<u>77,745</u>	<u>77,628</u>	<u>86,372</u>	<u>86,841</u>	<u>87,293</u>	<u>86,307</u>
<u>732,409</u>	<u>740,293</u>	<u>762,688</u>	<u>766,137</u>	<u>758,605</u>	<u>746,605</u>
7,140,461	5,990,462	6,978,428	7,645,522	8,855,212	12,526,699
4,988,748	4,305,605	5,237,002	5,486,137	5,941,513	6,350,873
-	378,575	408,580	195,142	***	***
<u>12,129,209</u>	<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>

**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 (Dollars in thousands)**

	2000-2001		2001-2002	
	AMOUNT	PERCENT	AMOUNT	PERCENT
REVENUES AND OTHER SOURCES				
Revenue limit sources	\$ 3,166,947	43.94 %	\$ 3,388,475	45.85 %
Federal revenues	598,540	8.30	686,278	9.28
Other state revenues	2,044,908	28.37	1,922,377	26.01
Other local revenues	357,231	4.96	325,743	4.41
Operating transfers in	295,058	4.09	339,093	4.59
Proceeds from issuance of bonds	386,655	5.36	500,000	6.76
Premium on bonds issued	-	-	-	-
Proceeds from refunding bonds issued	-	-	-	-
Premium on refunding bonds issued	-	-	-	-
State school facilities apportionments	153,739	2.13	-	-
Proceeds from Certif. of Participation/Long-term Capital Lease (1)	205,261	2.85	228,366	3.09
Proceeds from CA Energy Commission loan	-	-	-	-
Proceeds from Sullivan Canyon sale	-	-	-	-
Children Center facilities fund	-	-	441	0.01
TOTAL REVENUES AND OTHER SOURCES	\$ 7,208,339	100.00 %	\$ 7,390,773	100.00 %
EXPENDITURES AND OTHER USES				
Current:				
Certificated salaries	\$ 2,856,783	42.65 %	\$ 2,949,992	39.19 %
Classified salaries	981,602	14.66	1,044,050	13.87
Employee benefits (2) (3)	845,340	12.62	1,056,848	14.04
Books and supplies	475,529	7.10	492,982	6.55
Services and other operating expenditures (2)	629,724	9.40	650,543	8.64
Capital outlay	409,618	6.12	756,064	10.04
Debt service	132,517	1.98	217,078	2.89
Other outgo (2) (3)	71,389	1.07	(387)	(0.01)
Operating transfers out (4)	295,058	4.40	360,338	4.79
Payment to refunded bonds escrow agent	-	-	-	-
Payment to refunded COPs escrow agent	-	-	-	-
TOTAL EXPENDITURES AND OTHER USES	\$ 6,697,560	100.00 %	\$ 7,527,508	100.00 %

NOTES:

- (1) The 2000-2001 COPs proceeds, which were partially recognized in 1999-2000, are being used primarily for multiple projects at various District schools and campuses, such as relocatable classrooms, technological facilities and equipment, and certain capital improvements. In addition, \$35 million of these proceeds are being used to acquire sites and properties for future construction of new schools. The 2001-2002 COPs proceeds are being 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 are being used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: airconditioning, 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 are being used to refund a portion of prior year issuances and make administration building improvements.

See accompanying independent auditors' report.

2002-2003			2003-2004			2004-2005		
AMOUNT	PERCENT		AMOUNT	PERCENT		AMOUNT	PERCENT	
\$ 3,456,958	34.78 %		\$ 3,436,839	45.83 %		\$ 3,575,257	41.73 %	
814,681	8.20		984,482	13.13		1,071,628	12.51	
2,118,662	21.31		2,434,073	32.46		2,109,674	24.63	
401,287	4.04		451,220	6.02		549,264	6.41	
264,190	2.66		172,148	2.30		598,061	6.98	
2,607,345	26.22		-	-		200,000	2.33	
-	-		-	-		4,124	0.05	
-	-		-	-		219,125	2.56	
-	-		-	-		16,338	0.19	
-	-		-	-		-	-	
276,191	2.78		7,630	0.10		221,789	2.59	
-	-		-	-		1,318	0.02	
-	-		11,918	0.16		-	-	
518	0.01		-	-		-	-	
<u>\$ 9,939,832</u>	<u>100.00 %</u>		<u>\$ 7,498,310</u>	<u>100.00 %</u>		<u>\$ 8,566,578</u>	<u>100.00 %</u>	
\$ 3,036,964	39.41 %		\$ 3,055,482	36.87 %		\$ 3,110,756	32.34 %	
1,056,274	13.71		1,065,409	12.86		1,069,595	11.12	
1,207,073	15.66		1,312,887	15.84		1,349,301	14.03	
490,211	6.36		468,036	5.65		499,411	5.19	
757,868	9.83		821,490	9.91		646,373	6.72	
691,793	8.98		1,003,568	12.11		1,398,243	14.54	
201,782	2.62		346,196	4.18		344,171	3.58	
(145)	(0.00)		41,273	0.51		34,526	0.36	
263,998	3.43		171,934	2.07		598,061	6.22	
-	-		-	-		234,126	2.43	
-	-		-	-		333,958	3.47	
<u>\$ 7,705,818</u>	<u>100.00 %</u>		<u>\$ 8,286,275</u>	<u>100.00 %</u>		<u>\$ 9,618,521</u>	<u>100.00 %</u>	

(2) "Other outgo" includes Tuition for Handicapped Pupils. This account is reflected under "Services and Operating Expenditures" in the General Purpose Financial Statements. 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.

(3) Starting from fiscal year 2001-2002, PERS Reduction is included under "Employee benefits". Prior to 2001-2002, PERS Reduction was included under "Other outgo".

Continued...

**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 (Dollars in thousands)**

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

<u>FROM</u>	<u>TO</u>
General	Charter Fund
General	Child Development
General	Special Reserve
General	Special Reserve - Community Redevelopment Agency
General	Special Reserve - FEMA - Earthquake
General	Special Reserve - FEMA - Hazard Mitigation
General	Deferred Maintenance
General	Capital Services
General	Building - Measure R
Special Reserve	Capital Services
Special Reserve	General Fund
Capital Facilities	Capital Services
Capital Facilities	State School Building Lease - Purchase
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
Cafeteria	Charter Fund
Building - Measure R	Capital Services
Capital Services	General Fund
Capital Services	Special Reserve

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>
\$ -	\$ 20,240	\$ -	\$ -	\$ -
7,569	8,947	8,475	8,412	8,065
186,927	170,845	168,805	12,970	110,540
-	1,662	1,419	3,757	-
7,539	26,555	9,167	3,806	-
15,860	9,109	9,613	25,681	2,225
22,335	24,191	2,134	8,140	23,300
31,562	76,132	37,655	51,430	198,026
-	-	-	-	59
834	-	(5,866)	20,633	28,800
-	-	-	-	17,155
14,351	18,034	17,928	23,260	24,045
8,081	1,303	6,070	5,714	7,613
-	-	2,421	2,583	-
-	-	2,068	1,980	2,100
-	-	854	628	213
-	-	725	298	149
-	-	154	-	-
-	-	38	-	-
-	2,315	2,530	2,642	1,251
-	1,005	-	-	-
-	-	-	-	149,995
-	-	-	-	7,370
-	-	-	-	17,155
<u>\$ 295,058</u>	<u>\$ 360,338</u>	<u>\$ 264,190</u>	<u>\$ 171,934</u>	<u>\$ 598,061</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
MISCELLANEOUS STATISTICAL AND OTHER DATA
June 30, 2005

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 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.

GEOGRAPHICAL AREA: 704 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
Jose Huizar	June 30, 2009
Julie Korenstein	June 30, 2009
Marguerite Poindexter Lamotte	June 30, 2006
Mike Lansing	June 30, 2006
Jon Lauritzen	June 30, 2006
David Tokofsky	June 30, 2006

The Superintendent of Schools is Roy Romer .

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:	(As of October)	2005	2004
Elementary Schools		432	419
Middle/Junior High Schools		74	74
Senior High Schools		53	50
Options Schools		59	58
Special Education Schools		18	18
Magnet Schools		22	22
Magnet Centers		138	138
Community Adult Schools		24	25
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		26	14
Newcomer Schools		1	1
Multi-level Schools		8	8
TOTAL SCHOOLS AND CENTERS		971	943

ENROLLMENT BY LEVEL:	(As of October)	2005	2004
Elementary Schools		324,094	341,205
Middle/Junior High Schools		145,264	149,418
Senior High Schools		171,560	170,302
Magnet Schools/Centers		53,266	53,329
Special Education Schools		3,908	3,984
TOTAL K-12 ENROLLMENT		698,092	718,238
Community Adult Schools		101,406	110,411
Occupational Centers and Skills Centers		36,803	38,751
TOTAL ADULT/ROC ENROLLMENT		138,209	149,162
TOTAL ENROLLMENT		836,301	867,400
Early Education Centers		10,947	11,121

See accompanying independent auditors' report.

**STATE AND FEDERAL
COMPLIANCE
INFORMATION
SECTION**

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE/HOURS OF ATTENDANCE
For the Year Ended June 30, 2005**

	<u>SECOND PERIOD REPORT</u>	<u>ANNUAL REPORT</u>
ELEMENTARY		
General Education		
Kindergarten	48,708	48,806
Grades 1-3	160,777	160,224
Grades 4-8	255,561	254,011
Opportunity Schools	14	14
Home or Hospital	145	158
Community Day Schools	155	190
County Community Schools	20	19
Special Education	21,806	22,107
County Special Education*	-	-
TOTAL ELEMENTARY	<u>487,186</u>	<u>485,529</u>
SECONDARY		
General Education		
Regular Classes	156,153	152,901
Continuation Education	3,193	3,171
Opportunity Schools	389	400
Home or Hospital	113	121
Community Day Schools	694	736
County Community Schools	171	175
Special Education	11,313	11,274
County Special Education*	1	1
TOTAL SECONDARY	<u>172,027</u>	<u>168,779</u>
BLOCK GRANT FUNDED FISCALLY AFFILIATED CHARTERS	<u>6,024</u>	<u>5,990</u>
ADULT PROGRAM		
Regional Occupational Centers & Programs	17,649	19,110
Classes for Adults - Mandated	57,936	61,748
Concurrently Enrolled Adults	4,954	5,446
Full-time Independent Study**	3	3
TOTAL ADULT PROGRAM	<u>80,542</u>	<u>86,307</u>
TOTAL AVERAGE DAILY ATTENDANCE	<u>745,779</u>	<u>746,605</u>
	<u>HOURS OF ATTENDANCE</u>	
SUMMER SCHOOL		
Elementary	8,682,330	12,526,699
Secondary	4,705,408	6,350,873
TOTAL HOURS	<u>13,387,738</u>	<u>18,877,572</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 notes to State and Federal Compliance information on page 156.
See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
US DEPARTMENT OF AGRICULTURE:			
Passed through State Dept. of Health:			
Child Nutrition Network	10.560	25578	\$ 1,266,327
Child Nutrition Network	10.560	35450	5,025,734
Subtotal Pass-Through Programs			<u>6,292,061</u>
Passed through State Dept. of Ed:			
Child Nutrition School Programs Breakfast	10.553	19-64733	52,973,780
Child Nutrition School Programs Lunch	10.555	19-64733	145,446,015
Child Nutrition School Programs Snack	10.557	19-64733	4,513,211
Child Nutrition Child Care Food Program Claims	10.558	19-2016-3A & C	6,874,971
Child Nutrition Child Care Food Program - Cash in Lieu of Commodities	10.558	19-2016-3A & C	324,208
Child Nutrition Summer Food Services Prog. Operations	10.559	6473-W	1,242,244
Child Nutrition Summer Food Services Prog. Sponsor Admin.	10.559	6473-W	129,245
Donated Commodities	10.XXX	Not Available	10,305,258
Forest Reserve	10.665	Not Available	20,655
Subtotal Pass-Through Programs			<u>221,829,587</u>
TOTAL US DEPARTMENT OF AGRICULTURE			<u>228,121,648</u>
US DEPARTMENT OF COMMERCE:			
Passed through Corp. for Public Broadcast:			
Public Broadcasting Programs	11.550	1714	700,705
Corporation for Public Broadcasting - Community Svcs	11.550	8804	36,156
KLCS DIG	11.550	2002166032	46,902
Public Telecom Facility	11.550	06-04-N04101	62,000
Subtotal Pass-Through Programs			<u>845,763</u>
TOTAL US DEPARTMENT OF COMMERCE			<u>845,763</u>
US DEPARTMENT OF HOUSING & URBAN DEV:			
Passed through County of Los Angeles:			
Community Dev. Block Grant	14.218	101486	20,000
Passed through City of Carson:			
Carson Guidance	14.218	Not Available	19,319
Passed through Miscellaneous Agencies:			
CDBG - Youth Opportunities Programs	14.227	41404	168,576
CDBG - Youth Opportunities Programs	14.227	Not Available	40,048
Passed through Community Partnership Dev. Corp.:			
Youth Building Program	14.243	200311	220,623
Subtotal Pass-Through Programs			<u>468,566</u>
TOTAL US DEPARTMENT OF HOUSING & URBAN DEV			<u>468,566</u>
US DEPARTMENT OF JUSTICE:			
Community Oriented Policing Services - Universal Hiring Program	16.710	2002SHWX0658	1,128,213
Subtotal Direct Program			<u>1,128,213</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed through City of Los Angeles:			
LA's Best	16.541	C-104621	\$ 1,070,881
Subtotal Pass - Through Program			<u>1,070,881</u>
TOTAL US DEPARTMENT OF JUSTICE			<u>2,199,094</u>
US DEPARTMENT OF LABOR:			
Passed through State Dept. of Ed:			
EDD/TRA East LA Skill Center	17.245	Various	71,309
EDD/TRA East LA Occupational Center	17.245	Various	13,413
EDD/TRA East LA Occupational Center	17.245	Various	835
Passed through County of Los Angeles:			
DPSS - Gain Program	17.258	Not Available	19,632
Patient & Health Care Setting Education Svcs	17.258	200349	205,983
Passed through City of Los Angeles:			
Workforce Investment Act - Youth	17.259	107064	850,000
Workforce Investment Act - Youth	17.259	107116	756,316
Workforce Investment Act - Youth	17.259	107451	74,263
Passed through Mexican Opportunity Foundation:			
Workforce Investment Act - Youth	17.259	200334	8,306
Workforce Investment Act - Youth	17.259	200335	6,168
Passed through Goodwill Industries of Southern California:			
Workforce Investment Act - Youth	17.259	200337	19,494
Passed through University of California, Los Angeles:			
Workforce Investment Act - Youth	17.259	4950 G FB706	49,908
Workforce Investment Act - Youth	17.259	4950 G FB719	74,699
Passed through Carson/Lomita/Torrance Private Industry Council:			
Welfare to Work	17.253	C2004-078	55,889
Workforce Investment Act - Youth	17.259	C2004-114	100,915
Passed through Hub Cities Consortium:			
Workforce Investment Act - Youth	17.259	JG 400202	34,638
Passed through Catholic Charities, Los Angeles:			
Workforce Investment Act - Youth	17.259	Not Available	88,542
Passed through El Proyecto Del Barrio, Inc.:			
Workforce Investment Act - Youth	17.259	PY2004-05-N VAL	47,492
Workforce Investment Act - Youth	17.259	PY2004-05-S VAL	49,881
Passed through Los Angeles Urban League:			
Workforce Investment Act - Youth	17.259	PY2004-2005	53,903
Passed through Para Los Ninos:			
Workforce Investment Act - Youth	17.259	T2884-B	128,511
Passed through Watts Labor Community Action Council:			
Workforce Investment Act - Adult	17.258	107003(ADULT)	97,210
Workforce Investment Act - Youth	17.259	107011	100,788
Workforce Investment Act - Youth	17.259	PY2004-2005	87,662
Workforce Investment Act - Youth	17.259	107003(DISL. WKR)	70,394
Subtotal Pass-Through Programs			<u>3,066,151</u>
TOTAL US DEPARTMENT OF LABOR			<u>3,066,151</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
US DEPARTMENT OF TRANSPORTATION:			
Bike LA Safety Training	20.600	OP0406	\$ 195,219
Subtotal Direct Program			<u>195,219</u>
Passed through Gov. Office of Emergency Svc:			
Hazardous Materials Emergency Preparation	20.703	5411	7,196
Subtotal Pass-Through Program			<u>7,196</u>
TOTAL US DEPARTMENT OF TRANSPORTATION			<u>202,415</u>
NATIONAL SCIENCE FOUNDATION:			
Urban Systemic Initiative	47.076	ESI-0085037	3,034,830
Urban Systemic Initiative	47.076	REC-9900880	15,450
Urban Systemic Initiative	47.076	896G976	473,073
Subtotal Pass-Through Program			<u>3,523,353</u>
TOTAL NATIONAL SCIENCE FOUNDATION			<u>3,523,353</u>
ENVIRONMENTAL PROTECTION AGENCY:			
Comm. Based-EPA	66.034	XA-83098701-0	113,496
EPA Indoor Air Quality	66.034	XA-97970801-1	31,800
EPA - Children's Health Initiative	66.609	CH-97938901-0	1,517
Subtotal Pass-Through Programs			<u>146,813</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>146,813</u>
US DEPARTMENT OF HOMELAND SECURITY:			
Passed through State Office of Emergency Services:			
FEMA - Public Assistance	83.544	Not Available	4,564,236
FEMA - Hazard Mitigation	83.548	Not Available	12,065,212
Subtotal Pass-Through Programs			<u>16,629,448</u>
TOTAL US DEPARTMENT OF HOMELAND SECURITY			<u>16,629,448</u>
US DEPARTMENT OF EDUCATION:			
Indian Education	84.060	B060A040283	261,617
ESEA Magnet School Assistance	84.165	S165A020001	918,768
Drug Violence	84.184	S184K000065-01	533
Safe and Drug Free Schools	84.184	S184B020585	148,329
Schools - National Program	84.184	Q184E030019	247,659
IASA Title VII - Bilingual	84.195	T195A990053	97,029
Funds for Improvement Of Educ. - Elem. and Sec. Sch	84.215E	Q215E030199	336,557
Funds for Improvement Of Educ. - Elem. and Sec. Sch	84.215E	Q215E040418	210,017
Funds for Improvement of Educ. - Earmark Grants	84.215K	U215K040047	107,444
Small Learning Communities	84.215L	S215L002211	28,664
Small Learning Communities	84.215L	S215L002075	100,709
Small Learning Communities	84.215L	S215L002060	35,852
Small Learning Communities	84.215L	S215L022062	96,526
Small Learning Communities	84.215L	S215L022072	29,553

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Small Learning Communities	84.215L	S215L022180	\$ 421,524
Small Learning Communities	84.215L	S215L022260	255,276
Small Learning Communities	84.215L	S215L022378	382,320
Small Learning Communities	84.215L	V215L032230	729,227
Small Learning Communities	84.215L	V215L030035	65,744
Small Learning Communities	84.215L	V215L040048	100,089
Small Learning Communities	84.215L	V215L042114	500,013
Small Learning Communities	84.215L	V215L040233	66,861
Small Learning Communities	84.215L	V215L042267	187,477
Teaching American History Grants	84.215X	S215X020191	428,830
Teaching American History Grants	84.215X	S215X010036	180,414
Teaching American History Grants	84.215X	U215X030096	236,826
Twenty - first Century Learning Centers	84.287	S287A010385	31,217
Twenty - first Century Learning Centers	84.287	S287A011980	221,159
Twenty - first Century Learning Centers	84.287	S287A010969	83,242
Bilingual Ed - Program Dev. & Implementations Grants	84.288	T288S000085	73,370
Bilingual Ed - Program Dev. & Implementations Grants	84.288	T288S010056	37,964
Bilingual Ed - Program Dev. & Implementations Grants	84.288	T288S010315	47,299
Bilingual Ed - Program Dev. & Implementations Grants	84.288	T288S010386	32,888
Bilingual Ed - Program Dev. & Implementations Grants	84.288	T288S010354	13,999
Bilingual Ed - Comprehensive School Grants	84.290	T290U010407	281,130
Bilingual Ed - Comprehensive School Grants	84.290	T290U010488	390,839
Bilingual Ed - Comprehensive School Grants	84.290	T290U000127	241,466
Bilingual Ed - Comprehensive School Grants	84.290	T290U000052	200,238
Bilingual Ed - Comprehensive School Grants	84.290	T290U010410	232,953
Bilingual Ed - Comprehensive School Grants	84.290	T290U990103	106,746
Foreign Language Assistance	84.293	T293B010103	207,058
Foreign Language Assistance	84.293	T293B030111	215,228
Foreign Language Assistance	84.293	T293B030123-04	227,071
Foreign Language Assistance	84.293	T293B030116	78,880
Foreign Language Assistance	84.293	T293B030169	35,295
Foreign Language Assistance	84.293	T293B040179	134,511
Gear Up	84.334	P334A990456	1,067,251
Gear Up	84.334	P334A000061	1,406,196
NCCEP/SBC Gear Up	84.334	NGU83	62,941
NCCEP/SBC Gear Up	84.334	GU3	28,365
Media Literacy	84.351	S351B020056-03	109,705
Subtotal Direct Programs			<u>11,740,869</u>
Passed through State Dept. of Rehab:			
Workability II - ROC	84.126	24202	538,887
Passed through LACOE:			
Safe and Drug Free Schools - National Program	84.184	014148	83,553
Safe and Drug Free Schools - National Program	84.184	017255	64,196
Pass through State Dept. of Ed:			
Workforce Investment Act - Adult Basic Ed	84.002	14508	13,162,974
Workforce Investment Act - Adult Basic Ed	84.002	13978	917,415
Workforce Investment Act - Adult Basic Ed	84.002	14109	1,565,530
Title 1 Program Improvement	84.010	14106	988,920

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

Continued...

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Comprehensive School Reform	84.010	14325	\$ 20,430,293
ESEA - Title I	84.010	14329	379,054,164
ESEA - Title I - Delinquent	84.010	14329	1,369,698
ESEA - Title I - Neglected	84.010	14357	1,896,534
School Assist & Intervention Team	84.010	14417	140,940
ESEA - Title I - Achieving Schools	84.010	14429	679,205
School Assist & Intervention Team - Corrective	84.010	14579	907,349
Migrant Ed - Regular & Summer	84.011	14326	682,871
Special Ed:IDEA Basic Local Assistance Entitlement	84.027	01-3379-6473-01	115,670,944
Special Ed. Handicapped SFP	84.027	3693	7,225
Special Ed. Handicapped SFP	84.027	13613	389,843
Special Ed. Handicapped SFP	84.027	13682	10,180,241
Special Ed. Handicapped SFP	84.027	14466	21,108
Special Ed. Handicapped SFP	84.027	24462	84,412
ROC College Work Study	84.033	200330	244,656
CD Perkins - General Education	84.048	13924	8,066,180
CD Perkins - Vocational & Technology Education	84.048	200331	1,233,273
CD Perkins - Vocational & Technology Education	84.048	200332	2,740,938
Preschool Expansion Grant	84.173	13430	8,155,779
Preschool Expansion Grant	84.173	13431	15,672
IDEA Preschool	84.173	14688	6,220
Cal Early Start Personnel Development	84.181	0000143	95
Infant & Toddler	84.181	23761	1,173,956
Title IV - Safe and Drug Free Schools - State	84.186	14347	3,954,103
CCSSO - MCAULIFE Prof. Dev. Program	84.190	02089	27,130
Homeless Education Project	84.196	14332	185,292
Even Start Family Literacy Grants	84.213	14331	593,812
Title I - Capital Expense Reimbursement	84.216	13953	152,647
Public Charter Schools Grant	84.282	03150	69,683
Twenty-first Century Learning Centers	84.287	14349	13,980,257
Twenty-first Century Learning Centers	84.287	14350	30,000
Twenty-first Century Learning Centers	84.287	14535	36,018
Twenty-first Century Learning Centers	84.287	14681	1,277,680
HSPSA Planning Grant	84.298	14496	71,554
IASA - Title V - Innovative Strategies	84.298	14354	39,232,212
TLC - Focus on Achievement Project	84.318	14334	4,375,152
TLC - Focus on Achievement Project	84.318	14368	3,268,222
Reading First	84.357	14328	73,138,338
Title 3 - LEP	84.365	14346	16,814,644
Title 3 - Immigrant	84.365	14346	1,831,245
NCLB T-2B - MATH	84.366	14512	429,149
IASA - T-2 - Teacher Quality	84.367	14341	39,052,063
Passed through CSULA - UAS:			
Project Plus - CSU	84.324R	220985	31,026
Project Plus	84.325P	220380	31,643
Reading Fluency & Assessment Project - CSUAS	84.325	230061	34,192
Passed through UCLA:			
Cal State Gear Up	84.334	Not Available	18,666
Cal State Gear Up	84.334	Not Available	5,939

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

Continued...

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR OR PASS - THROUGH ENTITY ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed through NBPTS LAEP: NBPTS LA Educ.	84.367	SA-02-0204-002	\$ 69,202
Subtotal Pass-Through Programs			<u>769,182,940</u>
TOTAL US DEPARTMENT OF EDUCATION			<u>780,923,809</u>
US DEPT. OF HEALTH & HUMAN SERVICES:			
Crisis Counseling - SAMHSA	93.230	Not Available	326,368
Project Safe School	93.243	Not Available	156,588
School Health Program	93.938	Not Available	519,338
Subtotal Direct Program			<u>1,002,294</u>
Passed through LA County:			
Vocational Nursing Ed Services	93.178	H-700243	118,178
Adult Education Services	93.822	H-700173-1	60,759
Adult Education Services	93.822	H-700173-2	215,414
Refugee Act of 1980	93.576	30354	289,530
Refugee Act of 1980	93.576	30343	330,413
Passed through State Dept. of Ed:			
Infant Toddler Resource Program	93.575	13942	71,152
Instructional Materials	93.575	14130	19,300
Subtotal Pass-Through Programs			<u>1,104,746</u>
Passed through State Dept. of Health:			
Child Care Center	93.596	FCTR 4059	21,284,484
Medi - Cal Billing Options	93.778	940830	13,860,557
Passed through LA County of Education:			
Medi-Cal Administrative Activity	93.778	CS0501360	8,110,992
Subtotal Pass-Through Programs			<u>43,256,033</u>
TOTAL US DEPT. OF HEALTH & HUMAN SERVICES			<u>45,363,073</u>
CORPORATION FOR NATIONAL & COMMUNITY SERVICE:			
Passed through CDE:			
LA Youth Service (Cal Serve)	94.004	13161	322,619
Subtotal Pass-Through Program			<u>322,619</u>
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICE			<u>322,619</u>
DEPT. OF MILITARY & VETERANS AFFAIRS:			
Direct Program			
ROTC Vitalization Act	12.400	Not Available	1,921,562
Subtotal Direct Program			<u>1,921,562</u>
TOTAL DEPT. OF MILITARY & VETERANS AFFAIRS			<u>1,921,562</u>
TOTAL			<u>\$ 1,083,734,314</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2005

(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 (the 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 County's basic financial statements but agrees in all material respects.

(3) Non-Cash Assistance

Included in the Schedule of Expenditures of Federal Awards is \$10,305,258 of donated food commodities received from the State of California during the year ended June 30, 2005.

(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.

(5) FEMA Expenditures

The Schedule of Federal Expenditures of Federal Awards reports the current year expenditures for the FEMA – Public Assistance (CFDA 83.544) and the FEMA – Hazard Mitigation (CFDA 83.548) programs. Differences between the amounts reported in the Schedule of Federal Expenditures of Federal Awards and the basic financial statements are due to the accrual for disallowed expenditures incurred and reported in prior years. The disallowed amounts accrued during the year ended June 30, 2005 amounted to \$7,172,577 in the FEMA – Public Assistance and to \$3,464,275 in the FEMA – Hazard Mitigation programs.

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME OFFERED
For the Year Ended June 30, 2005

Grade Level	1982-1983	1986-1987	2004-2005	Number of Days		Status
	Actual Minutes Offered	Minutes Requirements	Actual Minutes Offered	Traditional Calendar	Multi-track Calendar	
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 notes to State and Federal Compliance Information on page 156.

See accompanying independent auditors' report.

**LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2005 (Dollars in thousands)**

	2006 (Budgeted)	2005*	2004	2003	2002
GENERAL FUND					
Revenues	\$ 6,655,304	\$ 6,204,479	\$ 5,848,129	\$ 5,799,442	\$ 5,544,815
Other Financing Sources	79,746	251,345	27,893	284,981	230,681
Total Revenues and Other Financing Sources	6,735,050	6,455,824	5,876,022	6,084,423	5,775,496
Expenditures	6,318,143	6,094,131	6,022,550	5,856,816	5,560,606
Other Financing Uses	407,851	336,106	108,529	230,932	364,851
Total Expenditures and Other Financing Uses	6,725,994	6,430,237	6,131,079	6,087,748	5,925,457
Change in Fund Balance	9,056	25,587	(255,057)	(3,325)	(149,961)
Beginning Fund Balance*	349,569	323,982	579,039	582,364	732,325
Ending Fund Balance	\$ 358,625	\$ 349,569	\$ 323,982	\$ 579,039	\$ 582,364
Available Reserves**	\$ 67,638	\$ 133,403	\$ 63,037	\$ 106,453	\$ 119,560
Designated for Economic Uncertainties	\$ 67,638	\$ 33,269	\$ 31,669	\$ 87,929	\$ 94,800
Undesignated Fund Balance	\$ -	\$ 100,134	\$ 31,368	\$ 18,524	\$ 24,760
Available Reserves as a Percentage of Total Expenditures and Other Financing Uses	1.01%	2.07%	1.03%	1.75%	2.02%
Total Long-Term Debt	\$ 5,478,927	\$ 5,941,234	\$ 5,755,078	\$ 5,765,979	\$ 2,926,726
Average Daily Attendance (ADA) at P-2	742,542	745,779	779,646	778,875	767,384

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 2004 and 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 was primarily caused by the issuance of General Obligation Bonds, Elections of 2004, Series A (\$72.6 million), Series B (\$60.5 million), Series C (\$50 million) and Series D (\$16.9 million), dated September 23, 2004; General Obligation Refunding Bonds, Series 2004, Series A-1 (\$90.7 million) and Series A-2 (\$128.4 million), dated December 21, 2004; Certificates of Participation, 2004 Series A (\$50.7 million) and Series B (\$6.9 million), dated July 28, 2004; Refunding Certificates of Participation, 2005 Series A (\$86.5 million) and Series C (\$44.2 million), dated May 24, 2005; Certificates of Participation, 2005 Series B (\$21.3 million), dated May 24, 2005; scheduled retirement of debt (\$620.5 million); and a net increase of self-insurance claims and estimates over payments (\$182.4 million). The net decrease in 2004 long-term debt was primarily caused by the scheduled retirement of debt with no new debt issued.

* Includes audit adjustment for Fiscal Year 2004-2005.

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

The Budgeted numbers did not include the audit adjustment presented on page 155.
See accompanying notes to State and Federal Compliance Information on page 156.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
SCHEDULE TO RECONCILE THE ANNUAL FINANCIAL BUDGET REPORT (SACS)
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2005 (in thousands)

ALL
FUND TYPES

June 30, 2005 Unaudited Actual Financial Reports Fund Balances	\$ 2,476,834
Adjustment:	
Receivable from Charter School for capital outlay	9,900
Economic defeasance of prior year Certificates of Participation (COPs)	(181,573)
Correction of accounting entries relating to COPs refunding	(25,682)
COPs refunding escrow account interest revenue	(2,288)
Accrual of potential loss due to litigation	(5,400)
Charter School portion of 2000A QZABs trustee accounts receivable not previously recorded	<u>7,600</u>
June 30, 2005 Audited Financial Statement Fund Balances	\$ <u><u>2,279,391</u></u>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Notes to State and Federal Compliance Information
Year Ended June 30, 2005

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 and the state requirements, this schedule was prepared by the District to disclose the financial activities of all Federal and State Funded programs. Revenues and expenditures are reported on the modified accrual basis of accounting as described in the notes to the general purpose 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, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2005. 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-05-01 through FS-05-05.

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 noted certain matters that we reported to management of the District in a separate letter dated December 22, 2005.

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 22, 2005



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

**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, 2005. 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 Title I Grants to Local Educational Agencies, Vocational Education – Basic Grants to States, Safe and Drug-Free Schools & Communities, and Innovative Education Program Strategies regarding matching, level of effort, and earmarking – supplement not supplant 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-05-01 and F-05-18 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and matching, level of effort, and earmarking – transferability that are applicable to the following programs: Title I Grants to Local Educational Agencies; Innovative Education Program Strategies; Twenty-First Century Community Learning Centers; Fund for Improvement of Education, Safe and Drug-Free Schools & Communities; Vocational Education – Basic Grants to States; and the Child Nutrition Cluster. 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 the requirements of Title I Grants to Local Educational Agencies, Vocational Education – Basic Grants to States, Safe and Drug-Free Schools & Communities, and Innovative Education Program Strategies regarding matching, level of effort, and earmarking – supplement not supplant, 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, 2005. 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-05-02, F-05-05 through F-05-12, F-05-14 through F-05-17, F-05-19 through F-05-22, and F-05-24 through F-05-34.

Internal 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-05-01, F-05-03, F-05-04, F-05-06, F-05-13, F-05-14, F-05-15, F-05-23 through F-05-25, F-05-32, and F-05-33.

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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 22, 2005



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Auditors' Report on State Compliance

The 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, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2005.

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 opinion on the financial statements and not to provide an opinion on internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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:

	Number of Procedures in Education Audit Appeals Panel Audit Guide, <i>Standards and Procedures for Audits of California K-12 Local Educational Agencies</i>	Procedures performed
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 and Staff Development Reform Program	7	Yes

	Number of Procedures in Education Audit Appeals Panel Audit Guide, <i>Standards and Procedures for Audits of California K-12 Local Educational Agencies</i>	Procedures performed
Instructional Time for:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	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
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	Yes
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	No

We were unable to perform procedures related to the School Accountability Report Card requirements, as the District has not completed the School Accountability Report Cards for the year ended June 30, 2005, as of the date of this report.

Based on our audit, we found that, for the items tested, the Los Angeles Unified School District complied with the state laws and regulations referred to above, except as described in the 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 Los Angeles Unified School 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 22, 2005

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

(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 which 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 Child Nutrition School Programs – Breakfast
 - CFDA 10.555 Child Nutrition School Programs – Lunch
 - CFDA 10.XXX Donated Commodities
 - CFDA 10.559 Child Nutrition Summer Food Services Program
 - CFDA 10.558 Child Nutrition Child Care Food Program
- National Science Foundation
 - CFDA 47.076 Urban Systemic Initiative
- U.S. Department of Homeland Security
 - CFDA 83.548 FEMA – Hazard Mitigation
- U.S. Department of Education
 - CFDA 84.002 WIA – Adult Basic Education
 - CFDA 84.010 NCLB Title 1, Part A
 - CFDA 84.048 CD Perkins – Vocational & Technical Education
 - CFDA 84.186 Safe and Drug-Free Schools

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- CFDA 84.215 Smaller Learning Communities
- CFDA 84.287 Beyond the Bell
- CFDA 84.298 Innovative Education Program Strategies
- U.S. Department of Health and Human Services
 - Child Care Cluster
 - CFDA 93.575 Instructional Materials
 - CFDA 93.596 Child Care Center

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,250,000.**

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

State Awards

Type of auditor's report issued on compliance for state programs: **Qualified Opinion**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding FS-05-01 Lack of System Integration

Finding Type: 30000

Observation

LAUSD's business critical applications such as IFS, PPPS (Payroll), HRS, PTRS, and 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.

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

Introduce an ERP (Enterprise Resource Planning) software solution to integrate key LAUSD 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Views of Responsible Officials and Planned Corrective Actions

The Los Angeles Unified School District (LAUSD or the District) agrees with the observation, the impact and the recommendation. However, one correction should be noted. PPPS resides on the same "IBM mainframe unit" as HRS, PTRS and IFS. PPPS is in a separate "logical partition" or LPAR. The ERP package that will integrate the functionality of the current systems in a modern HR/Financial software package to address the concern has been selected (SAP). The System Integrator has been awarded. The project has been started and we anticipate placement of the General Ledger functionality of the ERP system into production in the District on July 1, 2006. The basic implementation of the ERP system will be completed within the next 3 years.

Finding FS-05-02 Application Security Configuration

Finding Type: 30000

Observation

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.
- 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, HRSESGA, 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, 2 user id's (FSTPXH, FSTDXT) that LAUSD is unable to determine the individual associated with account.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- Five (5) users (MPTOXG, MPTPXB, MPTRCD, MPTAPS, 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 (Michael Gitomer, Gil Mochizuki, Alan Good, Robert Loya, Jack Freeze) with inappropriate access to modify the SSIS application source code.
- 23 users with inappropriate access to modify the ESIS application source code. However, access was revoked for all 23 individuals on 6/27/05.
- One user, Flora L Lee, has left the accounting department as of 9/3/04 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 LAUSD to an increased risk of unauthorized access to transactions and data in the IFS and HRS systems, and such systems impacting financial reporting in the absence of effective controls over assigning access to users.

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the observation, impact and response. Early in 2005, the Director of IT Security removed global access for the majority of programmers. At that time, steps were also taken to limit programmer access to specific production applications based on their current assignment, e.g. only senior IFS programmers can access production IFS files. This effort continues. Furthermore, the Security Director

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

has revised the authorization form used to set up new hires, contractor or consultant programmers and/or Specialists (Request for UserID Authorization (TSO.)) Programmers, Contractors and Specialists are now identified with increasing levels of authorization or ability, i.e., PGM 1 – 4 refer to Programmer, Senior Programmer, Manager or Director. Thus, Users are more narrowly defined not only by a system being supported but by degree of access.

The ITD Security Office also instituted a semi-annual review of privileged access to all mainframe systems, and all end users of IFS. The Director of IT Security will expand this semi-annual audit to operations personnel and end users of IFS and PTRS prior to January 1, 2006.

The ITD Division will continue to work with the Financial Division and the Personnel Division to go through the same review process for PTRS, HRS and PPPS, in accordance with the security model of the applications, current District policy and common best practice for appropriate segregation of duties.

Finding FS-05-03 HRS/Payroll System Interface Controls

Finding Type: 30000

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. This lack of proper interface controls is due largely to the fact that some of the system interfaces consists of a manual tape download/upload and there are no process 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, potentially resulting in late or incorrect payroll payments, interest penalty charges and legal, union, political or other exposures.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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.

Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with the observation, the impact and the recommendation. As mentioned in the response to # 1 above, the ERP package that will integrate the functionality of the current systems in a modern HR/Financial software package to address the concern has been selected (SAP). The System Integrator has been awarded. The project has been started and we anticipate placement of the General Ledger functionality of the ERP system into production in the District on July 1, 2006. The basic implementation of the ERP system will be completed within the next 3 years.

Regarding the observation about file interfaces, while we are certain entire file contents are processed from job to job, enhanced reporting of the number of records processed can be provided. Raw record counts are not being reconciled between systems. However all transactions, successful or rejected, appear on Control-D reports which are reviewed by Payroll Branch personnel upon each Payroll or File Updated (FUD) run.

The following is the response to observations for each of the two interfaces. We have numbered the bulleted statements to avoid confusion:

1. "The interface from HRS to PPPS lacks adequate controls ..."

Specifically, HRS maintains or creates five files that are used in Payroll, two of which are Reference only while three contain update transactions:

- a. The Payroll Event Table (PYL.HRS.PAYROLL.EVNT) – contains payment code descriptions, i.e., RG = Regular, used only as a reference table in PPPS;

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- b. The Payroll Run Number Table (PYL.HRS.PAYROLL.RNNO) – contains run dates and descriptions of each Payroll by its number i.e., “149 4/15/05 Supplementary Payroll.” It is used only as a reference and run-time check. No transactions or updates are triggered by this file;
- c. Benefit Updates from the Employee Benefits System (EBS) (PYL.HRS.FUDFILE) – contains benefit information created in the Employee Benefits System (EBS) to add, change or delete benefits for employees. Transaction codes are 471, 477, and 483 respectively;
- d. Assignments updates from HRS (HRS.GHRUS.PYRL) – contains assignment update “Greenies” transactions that add or change assignments on the Payroll Master. Transaction codes are 740 and 842 respectively;
- e. X-Ray Charges from HRS (PYL.LAUSD0.FDXRAYCD) – contains X-Ray charges that are deducted from a person’s initial paycheck. Once employed for three months, the X-Ray charge is credited back to an employee.

All these files are created by EBS or HRS on shared DASD. The files are read directly with no intervening FTP process. Also, no tapes are involved. An additional file, PYL.HRS.FUDEXTRA is used to introduce ad-hoc, extra or “not normal” transactions into the FUD stream. That file is normally created by the IT Payroll programmer who supports FUD to address a problem or special request.

An initiative will be undertaken to add control totals by transaction into FUD in an attempt to tie transactions back to their system of origination. Possibly the addition of a summary report to the current detail report would satisfy the requirement of identifying FUD transactions back to EBS or HRS. Work to be done when resources are available but prior to December 31, 2005.

2. “The interface from PTRS to IFS lacks adequate controls ...”

The PTRS-IFS Interface does not balance record counts between the two systems. PTRS records hours while IFS counts the dollars allocated to payroll, travel expenses, mileage, etc. so the units of measurement are different. The PTRS-IFS interface program can be modified on both systems to provide raw record count verification. The District will determine resource priorities for ERP implementation versus modification of existing systems as appropriate.

In detail, record processing in PTRS and IFS occurs as:

- a. PTR30002 is the main PTRS Application. The first job in that Application is PTR30102. Job PTR30102 reads records from the PTRS JDBT_RECORDS and JFMO_RECORDS tables and writes these out to file AT.LAUSC0.JC914F01.INTERIFS.
- b. Job PTR30152, also in PTRS, reads records from the most recent generation of the AT.LAUSC0.YJ914F01 File. This file is created during the Supplemental Payroll for the Adjustments in job PTR2170D. The most recent generation of the AT.LAUSC0.YJ914F01 file is copied to the AT.LAUSC0.YJ914F01.INTERIFS file.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- c. IFS Job IFS30166 appends file AT.LAUSC0.YJ914F01.INTERIFS to file AT.LAUSC0.JC914F01.INTERIFS, then reads these files and processes them on the Saturday following the run of the PTRS PTR30002 Application. IFS sends these files through a validation program. Valid records update tables/ledgers. Invalid records are loaded to the LBTR table for reconciliation by appropriate users.

In General

It should be noted that file completeness and balancing were tested when the original files and jobs were developed. Upon revisions, system testing is done to ensure that same file completeness and balancing is done.

Payroll and Time Keeping (PPPS and PTRS) will be addressed in the second phase of the ERP project now scheduled for implementation in January 2007.

Finding FS-05-04 Lack of System Access Segregation of Duties

Finding Type: 30000

Observation

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 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.

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Impact

HRS

Programmers assigned to the application global profile, with unrestricted access to IFS, HRS, and PTRS source code, can potentially modify the functionality of any of these three systems, even though maintenance of that system is not within their designated responsibility.

Additionally, end users, who have unrestricted access to a system, can potentially insert, modify or change transactions, which may go undetected from within the business. This may also lead to potential security violations of sensitive and critical data.

BRASS

End users who have unrestricted access to the BRASS system can add, modify, or delete transactions, which may go undetected from within the business. This may also lead to potential security violations of sensitive and critical financial information.

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the observation, the impact and the recommendation. The ITD Security Office has instituted a policy that requires the Director of IT, Security to endorse all applications for TSO access to production libraries with update or alter capability.

Early in 2005, the Director of IT, Security removed global access for the majority of programmers. At that time, steps were also taken to limit programmer access to specific production applications based on their current assignment, e.g., only senior IFS programmers can access production IFS files. This effort continues.

Furthermore, the Security Director has revised the authorization form used to set up new hires, contractor or consultant programmers and/or Specialists (Request for UserID Authorization (TSO.)) Programmers, Contractors and Specialists are now identified with increasing levels of authorization or ability i.e., PGM 1 – 4 refer to Programmer, Senior Programmer, Manager or Director. Thus, Users are more narrowly defined not only by a system being supported but by degree of access.

Most Programmers have been assigned an additional TSO “Test” ID. Test IDs have much more limited access in RACF, with the main restriction of compiling only into test program libraries.

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With respect to the segregation of duties for assignment transactions, the Office of the CFO will work with the ITD Training Branch to identify duties that should be segregated according to a capability rubric, and ensure duties are segregated appropriately to the extent that is feasible and advisable prior to the implementation of the ERP system.

With respect to the BRASS issues, the BRASS system is scheduled to be phased out during the 2005-2006 year, and will be decommissioned upon ratification of the 2006-2007 budget.

Finding FS-05-05 Lack of Grant and Accounts Receivable Aging Report or Analysis for Allowance for Uncollectible Receivables

Finding Type: 30000

Observation

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.

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.

Views of Responsible Officials and Planned Corrective Actions

The District believes that our current procedures provide us with adequate controls to monitor our receivables. We currently assign separate balance sheet receivable account numbers for accounts receivable generated by the various Sections in General Accounting each fiscal year, and have procedures in place to review and reconcile the detail listings by balance sheet account on a regular basis, including reconciling the totals to the general ledger balances. For example, the Specially Funded Accounting Section uses balance sheet account 9232 to record receivables for fiscal year 2004-05, account 9231 for receivables for fiscal year 2003-04, and the like. On a monthly basis, a detail listing of open receivables for

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each balance sheet account is downloaded from the accounts receivable subsystem, and the totals are reconciled to the general ledger balances. The listings are then sorted by responsible accounting analyst, and distributed for review and follow-up.

The proposed ERP system will implement new procedures for Accounts Receivable, including a standard functionality to generate periodic Aging Reports.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding F-05-01 – Allowable Costs – Missing Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding Type: 30000 and 50000

Programs Affected

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

Innovative Education Program Strategies: *Department of Education (DOE)*, State Grants for Innovative Programs (CFDA 84.298)

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant ID# 19-2003-CCLC-204

Smaller Learning Communities: *Department of Education (DOE)*, Fund for the Improvement of Education (CFDA 84.215), Award number #U215L032230

Safe and Drug-Free Schools: *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)

CD Perkins – Vocational & Technical Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

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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 semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- 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

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.

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- 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.

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.

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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.

Questioned Costs:

NCLB Title I, Part A: \$40,313 of \$51,160 payroll expenditures sampled

Innovative Education Program Strategies: \$54,495 of \$112,029 payroll expenditures sampled.

Beyond the Bell: \$35,623 of \$35,623 payroll expenditures sampled

Smaller Learning Communities: \$77 of \$15,137 payroll expenditures sampled

Safe and Drug-Free Schools: \$219 of \$1,621 payroll expenditures sampled

CD Perkins – Vocational & Technical Education: \$25,019 of \$98,417 payroll expenditures sampled

Child Nutrition School Programs: \$70,455 of \$70,455 payroll expenditures sampled

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Principals will be instructed on District policy and requirements regarding payroll time reporting in their regularly held meetings for Elementary, Middle, and Senior High School principals.

Finding F-05-02 – Allowable Costs – Missing Documentation to Support Program Expenditures

Finding Type: 50000

Programs Affected

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

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Compliance Requirement

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

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.

Questioned Costs: \$979 of \$19,615 nonpayroll expenditures sampled

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Due to the volume of invoices received for direct deliveries (dairy, bread, and the like) and the limited on-site storage space, invoices are retained at the Food Services Branch central office for approximately 6 months. The invoices are then moved to a District storage facility. Food Services will continue to look for ways to remedy the current situation. We will look at the new computer system being implemented by the District, Business Tools for Schools (BTS), to provide a solution to this problem through use of its imaging capabilities.

Finding F-05-03 – Allowable Costs – Program Manager Review of Program Expenditures

Finding Type: 30000

Programs Affected

CD Perkins – Vocational & Technical Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

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Compliance Requirement

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output;
- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Situation Noted

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.
- 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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Reports containing the details of expenditures will be provided to program managers to ensure appropriate salaries and allowable expenditures are charged to their programs.

Finding F-05-04 – Allowable Costs/Cash Management – Controls Over Payments to Subrecipients for Reimbursement of Expenditures & Other Vendors

Finding Type: 30000

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Programs Affected

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant ID# 19-2003-CCLC-204

Compliance Requirement

Government Auditing Standards (2003 Revision) Section 5.13 indicates examples of deficiencies in internal controls that are considered to be reportable conditions, "auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards." The following are examples of matters that may be reportable conditions:

- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output;
- Deficiencies in the design or operation of internal control that could result in violations of laws, regulations, provisions of contracts or grant agreements; fraud; or abuse having a direct and material effect on the financial statements or the audit objectives.

Situation Noted

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.

Questioned Costs: N/A

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Three of the four random samples questioned out of 46 were for November 2004 invoices. This was prior to the practice of initialing the reconciliation being instituted. The fourth sample was indeed erroneously not checked by the program assistant. Beyond the Bell will conduct on going training of employees to ensure reconciliation will be done more diligently in the future.

The billing in which the approval signature from Beyond the Bell was missing was due to an error in Accounts Payable. Steps will be taken to ensure that BTB authorizes invoices before payments are made.

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Finding F-05-05 – Allowable Costs – Classification of Indirect Program Expenditure as Direct

Finding Type: 50000

Programs Affected

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

Compliance Requirement

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:

Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

“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.

General purposes for determining allowable costs, Part F, Indirect Costs:

General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term “indirect costs,” as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Situation Noted

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.

Questioned Costs: \$15,715 of \$1,214,340 nonpayroll expenditures sampled

Recommendation

We recommend that the District by 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.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. The invoice for \$15,715 was paid from PO PG 00000075687. This equipment was ordered by University High School – not by Central Office (ITD). The District will train staff to correctly code purchase orders to reflect expenditures for school sites.

Finding F-05-06 – Allowable Costs – Compliance with State of California Funding Terms and Conditions for Child Development Programs

Finding Type: 30000 and 50000

Programs Affected

Child Care Center: U.S. Department of Health and Human Services (HHS), Passed Through the California Department of Education (CDE), Child Care Cluster – Child Care and Development Block Grant (CFDA 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Contract No. FTCCR-4059

Compliance Requirement

TITLE 45 PUBLIC WELFARE, SUBTITLE A DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS -Table of Contents, Subpart C Post-Award Requirements, Sec. 92.20 Standards for financial management systems. Financial Administration, (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.

State of California, Child Care and Development Fund (Center), Funding Terms and Conditions and Program Requirements for Child Development Programs (Fiscal Year 2004-05), Part V. Costs, Earnings and Reimbursement, Section C – Enrollment and Attendance Accounting:

Contractors shall use daily sign-in/sign-out sheets as a primary source document for audit and reimbursement purposes.

Situation Noted

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.

Questioned Costs: Not determined

Recommendation

We recommend that the District use daily sign-in/sign-out sheets as the source documents for reimbursement purposes.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Site Administrators and Office Managers will be reminded of the policies and procedures required by the State's Program Funding Terms and Conditions guidelines in maintaining the Sign In/Out sheets in relation to the parent contract and appropriate actions that are required. Administrators will be instructed to ensure that the guidelines are being adhered to.

The 2004-2005 was a challenging year for the Early Childhood Education Division (ECED) with the preparation and implementation of the Early Childhood Education Student Information System (EESIS) a new fiscal software system. The 1986 cobalt system was obsolete and in need of replacement. As a result of implementing the new EESIS system 100% effective July 1, 2005, it automated several of the manual processes. This benefits the division because it now provides the Fiscal Unit with the tools and the time for auditing sites. Fiscal unit will conduct random site visits to assure that State policies are being followed.

Finding F-05-07 – Allowable Costs – Grant Awarded to Separate Legal Entity

Finding Type: 50000

Programs Affected

Smaller Learning Communities: Department of Education (DOE), Fund for the Improvement of Education, (CFDA 84.215), Award number #U215K040047

Compliance Requirement

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart C – Auditees, Part .300 Auditee responsibilities. The auditee shall:

Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA Title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Situation Noted

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.

Questioned Costs: \$309,938

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.

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Views of Responsible Officials and Planned Corrective Actions

We accept the auditor's observation. The District will conduct an in-depth analysis to study the working relationship of the LA's Best office, the District, and the City of Los Angeles and develop policy and procedures to ensure that grant program expenditures are paid for and reported under the correct legal entity.

Finding F-05-08 – Allowable Costs – Eligible Project Costs Computed Incorrectly

Finding Type: 50000

Programs Affected

FEMA – Hazard Mitigation: *Department of Homeland Security (DHS)*, Passed Through the California Governor's Office of Emergency Services (OES), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, OES Project #1096 FIPS #037-91146

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 COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS-Subpart C-Post-Award Requirements, Sec. 13.20 Standards for financial management systems, Financial Administration

- 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.
- 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.

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Situation Noted

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.

Questioned Costs: \$17,302 of \$1,632,660 sampled

Recommendation

We recommend that the District strengthen its controls over claims to funding agencies to ensure that claims for reimbursement are calculated correctly.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The District holds internal controls as a top priority and will take the necessary steps to ensure internal controls are adequate.

Finding F-05-09 – Allowable Costs – FEMA OIG Audit Finding

Finding Type: 50000

Programs Affected

FEMA – Public Assistance: *Department of Homeland Security (DHS)*, Passed Through the California Governor's Office of Emergency Services (OES), Public Assistance (CFDA 83.544), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

FEMA – Hazard Mitigation: *Department of Homeland Security (DHS)*, Passed Through the California Governor's Office of Emergency Services (OES), Public Assistance (CFDA 83.548), FEMA 1008-CA, P.A. 037-91146

Compliance Requirement

TITLE 44 EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 11-CLAIMS-Subpart D-Personnel Claims Regulations, Section 11.77 Settlement of claims:

- (a) The General Counsel, FEMA, is authorized to settle (consider, ascertain, adjust, determine, and dispose of, whether by full or partial allowance or disallowance) any claim under this subpart.
- (b) The General Counsel may formulate such procedures and make such redelegations as may be required to fulfill the objectives of this subpart.
- (c) The General Counsel shall conduct or request the Office of Inspector General to conduct such investigation as may be appropriate in order to determine the validity of a claim.
- (d) The General Counsel shall notify a claimant in writing of action taken on their claim, and if partial or full disallowance is made, the reasons therefore.

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- (e) In the event a claim submitted against a carrier under Sec. 11.75 has not been settled, before settlement of the claim against the Government pursuant to this subpart, the General Counsel shall notify such carrier or insurer to pay the proceeds of the claim to FEMA to the extent FEMA has paid such to claimant in settlement.
- (f) The settlement of a claim under this subpart, whether by full or partial allowance or disallowance, is final and conclusive.

Situation Noted

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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

Management has reviewed and supports the appropriateness of the cost transfers made to date. District is preparing final closeout plans which will be coordinated with FEMA

Finding F-05-10 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding Type: 50000

Programs Affected

Child Nutrition Child Care Food Program: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), Child and Adult Care Food Program (CFDA 10.558), Agreement #19-2016-3A

FEMA – Hazard Mitigation: *Department of Homeland Security (DHS)*, Passed Through the California Governor's Office of Emergency Services (OES), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, PA #037-91146

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WIA – Adult Basic Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Adult Education – State Grant Program (CFDA 84.002), Grant ID# 29-R419-06AF

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

Safe and Drug-Free Schools: *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)

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant ID# 19-2003-CCLC-204

Innovative Education Program Strategies: *Department of Education (DOE)*, State Grants for Innovative Programs (CFDA 84.298)

Compliance Requirement

TITLE 7 AGRICULTURE, CHAPTER XXX OFFICE OF THE CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE, PART 3016 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS-Subpart C-Post-Award Requirements, Sec. 3016.21 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.

TITLE 44 EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS-Subpart C-Post-Award Requirements, Section 13.21 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.

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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 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:

Child Nutrition Child Care Food Program: \$4,715

FEMA – Hazard Mitigation: \$28,144

WIA – Adult Basic Education: \$24,908

NCLB Title I, Part A: \$1,830,414

Safe and Drug Free Schools: \$59,918

Beyond the Bell: \$25,610

Innovative Education Program Strategies: \$5,280

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.

Questioned Costs: \$1,978,889

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.

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Views of Responsible Officials and Planned Corrective Actions

After repeated written attempts to obtain agreement by the USDE to retain interest earnings on Title I grant funds (which represent the largest grant program for the District), the District sent a letter to USDE on December 8, 2003, stating our intent, absent a response from them by mid-January 2004, to transfer all interest earnings to the Title I program for allocation to District programs. No response was received, and the District subsequently reclassified the accrued interest to the Title I programs.

In order to obtain positive response from USDE prior to actually expending these funds for program purposes, the District will again write to USDE requesting their concurrence with our actions. Pending receipt of a positive response from USDE, the District will set aside the accrued interest to prevent its expenditure.

Upon approval to retain and use these interest earnings, similar requests will be made of other federal agencies. Pending ultimate resolution of this issue, the District continues to accrue potentially payable interest on other federal funds in its books.

Finding F-05-11 – Davis-Bacon – Prevailing Wage Rate Exceptions

Finding Type: 30000 and 50000

Programs Affected

FEMA – Hazard Mitigation: Department of Homeland Security (DHS), Passed Through the California Governor's Office of Emergency Services (OES), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, OES Project #1096 FIPS #037-91146

Compliance Requirement

TITLE 29-LABOR, PART 5 – LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING, Subpart A – Davis-Bacon and Related Acts Provisions and Procedures, Section 5.5 Contract provisions and related matters.

The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Sec. 5.1, the following clauses:

(1) Minimum wages.

- All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project) will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof)

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due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

- Contributions made or costs reasonably anticipated for bona fide fringe benefits under Section 1(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of paragraph (a)(1)(iv) of this section; also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period. Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the wage determination for the classification of work actually performed, without regard to skill, except as provided in Sec. 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided, that the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under paragraph (a)(1)(ii) of this section) and the Davis-Bacon poster (WH-1321) shall be posted at all times by the contractor and its subcontractors at the site of the work in a prominent and accessible place where it can be easily seen by the workers.
- Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.

(3) Payrolls and basic records.

- The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (Federal Emergency Management Agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (Los Angeles Unified School District). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, D.C. 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

Situation Noted

In our sample of 30 employees paid by construction contractors applicable to prevailing wage rate regulations for the program, we noted 1 employee that 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

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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.

Questioned Costs: Undetermined

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.

Views of Responsible Officials and Planned Corrective Actions

We concur with the finding and will notify the identified contractors of the deficiencies identified in the course of the audit and corrections needed. Further, we will take additional steps to assure that payrolls are in full compliance going forward.

Finding F-05-12 – Eligibility – Errors in Annual Eligibility Determination

Finding Type: 50000

Federal Program

Child Nutrition Child Care Food Program: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), Child and Adult Care Food Program (CFDA 10.558), Agreement #19-2016-3A

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.

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 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

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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.

Questioned Costs: Not determined

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. A new computer-generated attendance roster has been implemented since September 2005. This new report format will provide more accurate eligibility and participation information, and should minimize these types of errors.

Finding F-05-13 – Eligibility – Controls over Consolidation Application (CONAPP) Ranking of Schools by Percent Low Income

Finding Type: 30000

Federal Program

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

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 6313*. Eligible school attendance areas, (a) Determination, (5) Measures:

The local educational agency shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act [42 U.S.C. 1751 et seq.], the number of children in families receiving assistance under the State program funded under Part A of Title IV of the Social Security Act [42 U.S.C. 601 et seq.], or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to all school attendance areas in the local educational agency:

(A) to identify eligible school attendance areas;

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- (B) to determine the ranking of each area; and
- (C) to determine allocations under subsection (c) of this section.

Situation Noted

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 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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding regarding segregation of duties in compiling the rankings. The District will have calculations performed by an assistant and the detailed review performed by an administrator.

The District disagrees with the finding related to the methodology used in performing the calculation. District policy in FY 2004-05 established 2 ranges for the distribution of Title I resources; poverty levels of 40% to 64.99%, and poverty levels of 65% and greater. Although the auditors identified 7 schools where the school poverty rate changed when the composite method was used, only 1 school would move from

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one range to another as a result. In this case, the school would fall from above the 64.99% range to the 40% to 64.99% range. It is hard to envision a situation where a less than 1% (1/17) change would rise to the level of materiality required in the single audit.

The USDA National School Lunch and School Breakfast Programs established the three alternative Provisions (1, 2, and 3) to reduce paperwork and other administrative burdens at the local level. By taking advantage of the 4-year cycle allowed under Provision 2 status, the District is efficiently managing scarce resources.

Finding F-05-14 – Equipment – Equipment Management Policies

Finding Type: 20000, 30000 and 50000

Programs Affected

Smaller Learning Communities: *Department of Education (DOE)*, Fund for the Improvement of Education (CFDA 84.215), Award numbers #U215L032230, #S215L022062, #S215L022072, #S215L022180, #S215L022260, #V215L030035

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:

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.
- (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.

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Situation Noted

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.

Questioned Costs: None

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.

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- (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.
- (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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Office of School Re-design will conduct training meetings regarding equipment policies and procedures to ensure proper documenting of equipment purchases and disposals.

Finding F-05-15 – Equipment – Program Equipment Disposals

Finding Type: 20000, 30000 and 50000

Programs Affected

Smaller Learning Communities: *Department of Education (DOE)*, Fund for the Improvement of Education (CFDA 84.215), Award numbers #U215L032230, #S215L022062, #S215L022072, #S215L022180, #S215L022260, #V215L030035

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 (e) 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.

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Situation Noted

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.

Questioned Costs: Not determined

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Office of School Re-design will conduct training meetings regarding equipment policies and procedures to ensure proper documenting of equipment purchases and disposals.

Finding F-05-16 – Matching, Level of Effort, Earmarking, & Reporting – No Support for District Matching Funds Reported

Finding Type: 50000

Federal Program

Smaller Learning Communities: *Department of Education (DOE)*, Fund for the Improvement of Education (CFDA 84.215), Grant #V215L032230, #S215L022062, #S215L022072, #S215L022180, #S215L022260, #V215L030035

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*, Part 6) Records:

Costs and third-party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors.

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Situation Noted

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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Office of School Re-design will conduct training with the schools in question to identify the specifics of matching funds and document actual expenditures.

Finding F-05-17 – Matching, Level of Effort, and Earmarking – Administrative Costs Over the Restricted 2% Limit

Finding Type: 50000

Programs Affected

Safe and Drug-Free Schools: *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)

Compliance Requirement

TITLE 20 EDUCATION, CHAPTER 70 STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER IV TWENTY FIRST CENTURY SCHOOLS, Part A Safe and Drug-Free Schools, Subpart 1 state grants, *Section 7114*. Local educational agency program, (a) In general:

- Funds to local educational agencies – A State shall provide the amount made available to the State under this subpart, less the amounts reserved under Section 7112 of this Title to local educational agencies for drug and violence prevention and education programs and activities as follows:
 - (A) 60% of such amount based on the relative amount such agencies received under Part A of subchapter I of this chapter for the preceding fiscal year.
 - (B) 40% of such amount based on the relative enrollments in public and private nonprofit elementary schools and secondary schools within the boundaries of such agencies.

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- 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.

Situation Noted

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.

Questioned Costs: \$27,950

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Safe and Drug Free Schools and Communities office will develop annual program budgets that are in compliance with this requirement. In addition, program expenditures will be monitored monthly to ensure compliance with 2% limitation.

Finding F-05-18 – Matching, Level of Effort, and Earmarking – Transferred over the Maximum Limit Under Transferability Provisions

Finding Type: 50000

Programs Affected

Safe and Drug-Free Schools: *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)

Innovative Education Program Strategies: *Department of Education (DOE)*, State Grants for Innovative Programs (CFDA 84.298)

IASA – T-2-Teacher Quality (not selected as a major program): *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title II, Part A, Improving Teacher Quality State Grants (CFDA 84.367)

TLC – Focus on Achievement Project (not selected as a major program): *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title II, Part D, Education Technology State Grants (CFDA 84.318)

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Compliance Requirement

TITLE 20 EDUCATION, CHAPTER 70 STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER VI FLEXIBILITY AND ACCOUNTABILITY, PART A IMPROVING ACADEMIC ACHIEVEMENT, Subpart 2 funding transferability for state and local educational agencies, Section 7305b. Transferability of funds, (b) Transfers by local educational agencies, (1) Authority to transfer funds:

- In general

In accordance with this subpart, a local educational agency (except a local educational agency identified for improvement under Section 6316(c) of this Title or subject to corrective action under Section 6316(c)(9) \1\ of this title) may transfer not more than 50% of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year to one or more of its allocations for such fiscal year under any other provision listed in paragraph (2).

- Agencies identified for improvement

In accordance with this subpart, a local educational agency identified for improvement under Section 6316(c) of this Title may transfer not more than 30% of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph(2) for a fiscal year:

- (i) to its allocation for school improvement for such fiscal year under Section 6303 of this title; or
- (ii) to any other allocation for such fiscal year if such transferred funds are used only for local educational agency improvement activities consistent with Section 6316(c) of this title.

Situation Noted

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. The following table summarizes the maximum allowable transfers and the actual transfers made by the District to Title V, Part A under the transferability provisions:

From	Allowable maximum transfers		Actual transfers made		Over-transferred
	Allocation base	30% maximum	Cash receipts	50%	
Title II, Part A	57,672,738	17,301,821	46,138,188	23,069,094	(5,767,273)
Title II, Part D	9,734,520	2,920,356	8,274,342	4,137,171	(1,216,815)
Title IV, Part A	2,773,726	832,118	2,773,726	1,386,863	(554,745)
	<u>70,180,984</u>	<u>21,054,295</u>	<u>57,186,256</u>	<u>28,593,128</u>	<u>(7,538,833)</u>

Questioned Costs: \$7,538,833

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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.

Views of Responsible Officials and Planned Corrective Actions

The District was notified of its Program Improvement status on March 21, 2005, nine months into the 2004-05 fiscal year. At the time the District had already transferred 50% of the Title II and Title IV entitlement, as evidenced by its Consolidated Application Part 2 submitted January 31, 2005, when it was not in Program Improvement status. Federal statute requires only districts that are in Program Improvement status to limit their transfers to 30%.

Finding F-05-19 – Period of Availability – Expenses Not Claimed in Proper Period

Finding Type: 50000

Federal Program

CD Perkins – Vocational & Technical Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

Safe and Drug-Free Schools: *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)

Innovative Education Program Strategies: *Department of Education (DOE)*, State Grants for Innovative Programs (CFDA 84.298)

Reading First (not audited as a major program): U.S. *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Reading First State Grants (CFDA 84.357)

Compliance Requirement

TITLE 20 EDUCATION, CHAPTER 70 STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER IV TWENTY FIRST CENTURY SCHOOLS, Part A Safe and Drug-Free Schools, Subpart 1 state grants, Section 7114. Local educational agency program, (a) In general, (3) Return of funds to State, reallocation:

- Return, except as provided in subparagraph (B), upon the expiration of the one-year period beginning on the date on which a local educational agency receives its allocation under this subpart:
 - i. such agency shall return to the State educational agency any funds from such allocation that remain unobligated; and
 - ii. the State educational agency shall reallocate any such amount to local educational agencies that have submitted plans for using such amount for programs or activities on a timely basis.

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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

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.

Questioned Costs

CD Perkins – Vocational & Technical Education: \$28,971 of \$277,559 sampled.

Safe and Drug-Free Schools: \$28,870 of \$857,704 sampled.

Innovative Education Program Strategies: \$8,659 of \$341,623 sampled.

Reading First: \$2,918,496

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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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Procedures will be implemented to ensure timely and accurate recording of expenditures in the correct fiscal year. Managers of the above listed programs will be trained in these procedures.

Finding F-05-20 – Procurement, Suspension, and Debarment – No Suspension or Debarment Certification on File for Contract over \$25,000

Finding Type: 50000

Federal Program

Child Nutrition Child Care Food Program: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), Child and Adult Care Food Program (CFDA 10.558), Agreement #19-2016-3A

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

Urban Systemic Initiative: *National Science Foundation (NSF)*, Education and Human Resources (CFDA 47.076), Cooperative Agreement No. ESR-0085037

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

CD Perkins – Vocational & Technical Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant ID# 19-2003-CCLC-204

Child Care Center: *U.S. Department of Health and Human Services (HHS)*, Passed Through the California Department of Education (CDE), Child Care Cluster – Child Care and Development Block Grant (CFDA 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Contract No. FPCR-4059

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Compliance Requirement

TITLE 7 AGRICULTURE, CHAPTER XXX OFFICE OF THE CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE, PART 3016 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS Subpart C Post-Award Requirements, Section 3016.35 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."

TITLE 45 PUBLIC WELFARE, SUBTITLE A DEPARTMENT OF HEALTH 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 92.35 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."

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."

Situation Noted

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 system 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.

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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.

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.

Questioned Costs: None

Recommendation

We recommend that the District strengthen its controls over review of vendors for suspension and debarment.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Procurement Services Group has modified the language in its contract templates to include certifications of non-suspension and debarment. The offices involved will be instructed in the use of the EPLS system.

Finding F-05-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding Type: 50000

Programs Affected

Urban Systemic Initiative: *National Science Foundation (NSF)*, Education and Human Resources (CFDA 47.076), Cooperative Agreement No. ESR-0085037

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Smaller Learning Communities: *Department of Education (DOE)*, Fund for the Improvement of Education (CFDA 84.215), Award numbers #U215L032230, #S215L022062, #S215L022072, #S215L022180, #S215L022260, #V215L030035

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.
- 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.

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Situation Noted

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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The above listed programs will receive training on existing District policies and procedures regarding contracting practices to ensure that waivers to the competitive bid requirements are kept to support compliance with noncompetitive bidding requirements.

Finding F-05-22 – Procurement, Suspension and Debarment – Missing Required Federal Contract Provisions

Finding Type: 50000

Federal Program

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

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Compliance Requirement

TITLE 7 AGRICULTURE, CHAPTER XXX OFFICE OF THE CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE, PART 3016 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS Subpart C Post-Award Requirements, Section 3016.36 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 affected 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 \$2,000 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 \$2,000, and in excess of \$2,500 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.

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- (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
- (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

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.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Procurement Services Group will modify future contract language to include required Federal language.

Finding F-05-23 – Program Income – Controls over Cash Receipts Collected at School Sites

Finding Type: 30000

Programs Affected

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed Through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

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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 three 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 three 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 three-year period as long as required for the resolution of the issues raised by the audit.

Situation Noted

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.

Questioned Costs: None

Recommendation

We recommend that the District strengthen controls over the cash collection and reporting process at the school sites.

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Views of Responsible Officials and Planned Corrective Actions

The Food Services Branch agrees that controls over the cash collection and reporting procedures at the school sites need to be strengthened. The Food Services Branch plans automate the point-of sale process which should significantly strengthen controls over the cash collection and reporting processes. Until the computer system is implemented, we will continue to train staff on the proper procedure of cash handling.

Finding F-05-24 – Reporting – Incorrect and Unsupported Expenditure Attendance Reports

Finding Type: 50000

Federal Program

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant No. 19-2003-CCLC-204

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, Sec. 80.20 Standards for financial management systems. Financial Administration.

- 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.
- 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.

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Situation Noted

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 under claimed by a total of 68 days and 1 quarter was over claimed by 8 days.

Questioned Costs: Not determined

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 agrees with the findings. Beyond The Bell will more closely monitor attendance reporting for accuracy. Furthermore, we are both undertaking a systems analysis to rationalize data management and planning to add additional fiscal staff.

Finding F-05-25 – Reporting – Missing Documentation & Errors in Monthly Claim Reports

Finding Type: 30000 and 50000

Federal Program

Child Nutrition Child Care Food Program: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education (CDE), Child and Adult Care Food Program (CFDA 10.558), Agreement #19-2016-3A

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 226.15 Institution provisions, (e) Recordkeeping:

Each institution shall establish procedures to collect and maintain all program records required under this part, as well as any records required by the State agency. Failure to maintain such records shall be grounds for the denial of reimbursement for meals served during the period covered by the records in question and for the denial of reimbursement for costs associated with such records. At a minimum, the following records shall be collected and maintained:

Daily records indicating the number of participants in attendance and the daily meal counts, by type (breakfast, lunch, supper, and snacks), served to family day care home participants, or the time of service meal counts, by type (breakfast, lunch, supper, and snacks), served to center participants.

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State agencies may require family day care homes to record meal counts at the time of meal service only in day care homes providing care for more than 12 children in a single day, or in day care homes that have been found seriously deficient due to problems with their meal counts and claims.

TITLE 7 AGRICULTURE, CHAPTER II FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 226 CHILD AND ADULT CARE FOOD PROGRAM-Subpart D Payment Provisions, Section 226.10 Program payment procedures.

Claims for Reimbursement shall report information in accordance with the financial management system established by the State agency, and in sufficient detail to justify the reimbursement claimed and to enable the State agency to provide the final Report of the Child and Adult Care Food Program (FNS 44) required under Sec. 226.7(d). In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim.

Situation Noted

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 under claimed breakfasts by 3 and over claimed lunches by 13, another week the District under claimed 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 over claimed by a total of 22 meals. Either this difference was not found during the District's claim review process or an adjustment was made subsequent to the filing, and a revised claim was not filed.

Questioned Costs: Not determined

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.

Views of Responsible Officials and Planned Corrective Action

The District agrees with the findings. The Food Services Branch will provide training to staff to ensure accurate claims reporting.

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Finding F-05-26 – Reporting – Late Expenditure and Attendance Reports

Finding Type: 50000

Federal Program

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant No. 19-2003-CCLC-204

Compliance Requirement

California Department of Education, Grant Award Notification #19-2003-CCLC-204, *Conditions of Grant Award, No. 10*, the grantee shall submit expenditure reports and programmatic reports (including evaluation reports) as indicated in the Budget Information Packet. Failure to submit interim reports as required may result in denial of remaining grant amounts. Failure to submit an annual expenditure report within one month of the reporting date may result in denial of the remaining grant amount. Failure to submit a final expenditure report within one month of the reporting date will result in a billing from the CDE for the entire amount of any grant funds advanced and possible reduction of any subsequent years' grant(s).

Situation Noted

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.

Questioned Costs: None

Recommendation

We recommend the District strengthen its current controls over financial and attendance reporting to ensure that reports are submitted timely.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. BTB is working with its partnering agencies to speed up attendance reporting. This is the underlying problem in late report submission. Furthermore we are both undertaking a systems analysis to rationalize data management and also planning to add additional fiscal staff.

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Finding F-05-27 – Reporting – Schedule of Expenditures of Federal Awards

Finding Type: 50000

Federal Program

FEMA – Hazard Mitigation: *Department of Homeland Security (DHS)*, Passed Through the California Governor's Office of Emergency Services (OES), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, PA #037-91146

WIA – Adult Basic Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Adult Education – State Grant Program (CFDA 84.002), Grant ID# 29-R419-06AF

CD Perkins – Vocational & Technical Education: *Department of Education (DOE)*, Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

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 COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS-Subpart C-Post-Award Requirements, Sec. 13.41 Financial reporting. B. Accounting basis.

- Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through an analysis of the documentation on hand.

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 C – Auditees, Section .310 Financial statements, Part (b) Schedule of expenditures of Federal awards.

- The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

Situation Noted

FEMA – Hazard Mitigation: During our procedures over the District's recording of program expenditures in the Schedule of Expenditures of Federal Awards, 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

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account which is included as a Federal expenditure and thus included on the Schedule of Expenditures of Federal Awards for the entire project amount in the year of completion. This methodology distorts the period in which the Federal expenditures are incurred.

WIA – Adult Basic Education: During our examination of the program expenditures reported on the Schedule of Expenditures of Federal Awards, 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 Schedule of Expenditures of Federal Awards is overstated by \$392,618.

CD Perkins – Vocational & Technical Education: During our examination of the program expenditures reported in the Schedule of Expenditures of Federal Awards, 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 Schedule of Expenditures of Federal Awards is overstated by \$249,099.

Questioned Costs: None

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.

Views of Responsible Officials and Planned Corrective Actions

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 (SEFA) 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 Ed states that all funds must be expended and legally obligated by June 30, 2005.

CD Perkins – Vocational & Technical Education: The Schedule of Expenditures of Federal Awards (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

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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.

Finding F-05-28 – Reporting – Expense Claim Not Supported by General Ledger

Finding Type: 50000

Programs Affected

FEMA – Hazard Mitigation: *Department of Homeland Security (DHS)*, Passed Through the California Governor’s Office of Emergency Services (OES), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, PA #037-91146

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 COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS Subpart C-Post-Award Requirements, Section 13.20 Standards for financial management systems, Financial Administration:

- 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.
- 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.

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Situation Noted

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.

Questioned Costs: \$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.

Views of Responsible Officials and Planned Corrective Actions

In 2005, expenditures which had previously been charged to other funds were transferred to the FEMA fund in the belief that they are appropriate expenditures for this fund. The District will review these expenditures to verify whether they are in fact valid expenditures. In the event that they should not have been charged to the FEMA fund, appropriate corrective action will be taken.

Finding F-05-29 – Subrecipient Monitoring – Federal Award Identification to Subrecipients

Finding Type: 50000

Federal Program

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant No. 19-2003-CCLC-204

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 80.37, Subgrants, (b) All other grantees.

- All other grantees shall follow the provisions of this part which are applicable to awarding agencies when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. Grantees shall:
 - (1) Ensure that every subgrant includes a provision for compliance with this part;
 - (2) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations; and
 - (3) Ensure that subgrantees are aware of requirements imposed upon them by Federal statutes and regulations.

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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:

- A pass-through entity shall perform the following for the Federal awards it makes:
 - (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.

Situation Noted

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.

Questioned Costs: None

Recommendation

We recommend that 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 maintain copies of all agreements with its subrecipients as required under OMB Circular A-133.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. All contracts will be amended to include a funding identification statement, the wording of which will be provided by the auditor. The statement will identify the funding source in a predetermined, consistent manner. All future contracts with Beyond the Bell will contain these conditions.

Finding F-05-30 – Subrecipient Monitoring – Monitoring Procedures Over Subrecipients

Finding Type: 50000

Federal Program

Beyond the Bell: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Twenty-First Century Community Learning Centers (CFDA 84.287), Grant No. 19-2003-CCLC-204

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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 80.40 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:

- 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.
- 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.
- 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.
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- 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 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.

Questioned Costs: None

Recommendation

We recommend the District strengthen its current controls over subrecipient monitoring to ensure that subrecipients are complying with federal grant requirements.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Beyond The Bell will review and modify its monitoring procedures to ensure complete and timely submission of reports. Additional financial staff is being added to assist with this work.

Finding F-05-31 – Special Tests and Provisions (Highly Qualified Teachers) – No Policies to Ensure Newly Hired Teachers are Highly Qualified

Finding Type: 50000

Federal Program

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

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:

- Newly hired teachers in Title I programs.
 - (1) A Local Educational Agency 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.
 - (2) For the purpose of paragraph (a)(1) of this section, a teacher teaching in a program supported with funds under subpart A of this part is:
 - (i) A teacher in a targeted assisted school who is paid with funds under subpart A of this part;
 - (ii) A teacher in a schoolwide program school; or
 - (iii) A teacher employed by an LEA with funds under subpart A of this part to provide services to eligible private school students under Sec. 200.62.
- All teachers of core academic subjects.
 - (1) 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.

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- (2) A teacher who does not teach a core academic subject – such as some vocational education teachers – is not required to meet the requirements in Sec. 200.56.
- Definition. The term “core academic subjects” means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography.

Situation Noted

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.

Questioned Costs: Not determined

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.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with this finding. It's NCLB compliant policy is stated on the LAUSD Human Resources Division website. It reads: “It is the policy of the Los Angeles Unified School District to hire teachers in all core academic subjects who meet the requirements of the federal **No Child Left Behind** law. This policy is in accordance with the definitions outlined in the Compliance Requirements (Title 1-34) which stipulate that all teachers hired after the first day of the 2002-03 school year who teach core academic subjects in a program supported with Title 1 funds be compliant with the **No Child Left Behind** legislation.”

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

Finding Type: 30000 and 50000

Federal Program

Safe and Drug-Free Schools: *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)

Innovative Education Program Strategies: *Department of Education (DOE)*, State Grants for Innovative Programs (CFDA 84.298)

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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.

Situation Noted

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.

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 District agrees with the findings. The LAUSD is in the pilot stages of a model for dealing with private school monies allotted per pupil for Title IV, Part A. LAUSD holds documentation of communication and consultation records with the qualified private schools. Letters and Consultations are sent out twice a year. Private schools are not required to utilize our district services, and many do not. They send a request form

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to LAUSD on the services needed. LAUSD provides the per pupil expenditure ratio to the Health Education Programs. The private schools have access to all services provided by the Health Education Programs that is equal to that of the public schools. Monies are expended in the form of services and materials. The services provided are documented by the Teacher Advisor in charge of private schools, and the materials provided are documented by Health Education Programs distribution warehouse records.

Finding F-05-33 – Special Tests and Provisions – Verification of Free/Reduced Price Applications – Errors in Verification of Student Applications

Finding Type: 30000 and 50000

Programs Affected

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), 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 three 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.

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Situation Noted

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.

Questioned Costs: Not determined

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The Food Services Branch will provide training to staff regarding the importance of accuracy in income verification data compilation. A second reviewer will check the summation worksheet for accuracy.

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

Finding Type: 50000

Programs Affected

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.XXX), Summer Food Service Program for Children (CFDA 10.559), Agreement #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 C -Requirements for School Food Authority Participation, Section 210.14 Resource management, (a) Nonprofit school food service:

- School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under Sec. 210.19(a) of this part.

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California Education Code, TITLE 1. GENERAL EDUCATION CODE PROVISIONS, DIVISION 1. GENERAL EDUCATION CODE PROVISIONS, PART 23. SUPPLEMENTAL SERVICES, Article 3. Cafeterias, Allocation of Charges, Section 38101:

- The governing board of a school district may authorize expenditures from the cafeteria fund or cafeteria account only for those charges from that fund or account that are defined in the California School Accounting Manual.
- A food service program shall not be charged more than once for expenditures for the same service. If a food service program is being charged for a service as a direct cost, the school district shall not also allocate that cost as a direct support cost or indirect cost.
- For purposes of this section, an "indirect cost" shall be limited to the lesser of the school district's prior year indirect cost rate as approved by the department or the statewide average approved indirect cost for the second prior fiscal year.
- Charges to, or transfers from, a food service program shall indicate when the charge or transfer was made and shall be accompanied by a written explanation of the purpose of, and basis for, the expenditure.
- This section does not authorize a school district to charge a food service program any charges prohibited by state or federal law or regulation.
- If the department and the Department of Finance concur that a school district has violated this section, the Superintendent shall direct that school district to transfer double the amount improperly transferred to the general fund of the school district from that fund to the cafeteria fund of the school district or cafeteria account for the subsequent fiscal year, which is then to be used for the improvement of the food service program of the school district. If the school district fails to make that transfer as directed, the Superintendent shall reduce the regular apportionment of the school district determined pursuant to Section 42238 and increase the child nutrition allowance of the school district determined pursuant to Section 41350 by double the amount improperly transferred to the general fund of the school district and that amount is then to be used for improvement of the food service program.
- It is the intent of the Legislature in enacting this section that responsible school district officials be held fully accountable for the accounting and reporting of food service programs and that minor and inadvertent instances of noncompliance be resolved in a fair and equitable manner to the satisfaction of the Superintendent and the Department of Finance.
- The Superintendent, with the approval of the Department of Finance, may waive up to the full transfer amount in subdivision (f) if he or she determines that the noncompliance involved is minor or inadvertent, or both.

Situation Noted

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.

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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.

Questioned Costs: \$1,362,788

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.

Views of Responsible Officials and Planned Corrective Actions

There appears to be a conflict between Federal and State law as it relates to local cafeteria funds. The District operated under the state budget flexibility guidelines. District staff will follow up with the Federal government and attempt to resolve the conflict.

(4) Findings and Questioned Costs Relating to State Awards

S-05-01 Attendance Accounting – Primary Schools – Errors in Attendance Computations

Finding Types: 10000 and 40000

School Affected

Alexandria Ave Elementary

Identified Condition

For the school noted above, 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 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.

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.

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.

Effect on Average Daily Attendance Reported for Apportionment

One day overstated for Track B / 121 P2 divisor for Track B = 0.008

Two days overstated for Track C / 148 P2 divisor for Track C = 0.014

Total ADA overstated = 0.022 x \$4,862 = \$107

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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.

Views of Responsible Officials and Planned Corrective Actions

Alexandria Elementary School's Response: All teachers will be trained on proper recordkeeping of attendance. Office staff who work with teachers' registers, and other attendance documents will also be trained. The PSA counselor will work with staff to monitor recordkeeping.

S-05-02 Attendance Accounting – Secondary Schools – Errors in Attendance Computations

Finding Types: 10000 and 40000

Schools Affected

Wilmington Middle School

Huntington Park High School

Taft High School

Identified Condition

For the schools noted above, 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.

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.

Effect on Average Daily Attendance Reported for Apportionment

One day overstated for Single Track / 126 P2 divisor for Single Track = .008
Six days overstated for Single Track / 125 P2 divisor for Single Track = 0.048
One day overstated for Track A /95 P2 divisor for Track A = 0.011
Five days overstated for Track B /121 P2 divisor for Track B = 0.041

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21 days understated on District report for Track A / 95 P2 divisor for Track A = (.221)
2 days overstated on District report for Track B / 121 P2 divisor for Track A = .017
12 days understated on District report for Track C / 148 P2 divisor for Track C = (.081)

Total ADA understated = 0.177 x \$4,862 = (\$861)

Recommendation

We recommend that the Schools 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.

Views of Responsible Officials and Planned Corrective Actions

Wilmington Middle School's Response: To ensure accurate reporting of student attendance, School will implement several corrective actions/procedures, which includes regular review of attendance recording procedures with staff, and tighter monitoring of various attendance records and documents to ensure consistency of data.

Huntington Park High School's Response: School is now using ISIS and will be able to monitor teacher's attendance records better. With regards to the statistical reports, staff updated SIS (Student Information System) but failed to generate and submit the revised statistical reports. Consequently, the revisions were not included in the District's Annual Attendance Report. ISIS is expected to account for all adjustments in the District's report since changes in school reports should automatically be reflected in the District report.

Taft High School's Response: School is now using ISIS. New ISIS procedures and various reports, including daily discrepancy reports, help ensure more accurate attendance reporting by alerting staff and enabling staff to address potential errors in a timely manner.

S-05-03 Kindergarten Continuance – Missing Approval Forms

Finding Types: 10000 and 40000

School Affected

112th Street Elementary School

Identified 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.

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

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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.

Effect on Average Daily Attendance Reported for Apportionment

Student attended a Single Track school and was absent for 7 days.

$119 \text{ days} / 126 = 0.944$ (less than 1 unit of ADA)

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

112th Street Elementary School's Response: The School could not locate a copy of the parental agreement. School made several attempts to contact the parent, but was unsuccessful. School will tighten controls to ensure that files are maintained properly.

S-05-04 Attendance Accounting – Independent Study – Errors in Attendance Computations

Finding Types: 10000 and 40000

School Affected

City of Angels

Identified 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.

Criteria

California Education Code 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.

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Effect on Average Daily Attendance Reported for Apportionment

1 day overstated: $1 / 126 \text{ P2 divisor for Single Track} = (0.008) \text{ ADA} \times \$4,862 = (\$39)$

20 days underreported on statistical report / 126 P2 divisor = $(0.159) \text{ ADA} \times \$4,862 = (\$713)$

Total (\$752)

Recommendation

We recommend that the School 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 School implement controls to ensure teacher registers and student assignment sheets are consistent and accurate.

Views of Responsible Officials and Planned Corrective Actions

District's response to the finding of 7 overstated days: The District's review of the teacher's register and the 2 students' Weekly Assignment Sheet did not reveal an overstatement of attendance. Ed Code Section 51745.5 (b) states that school districts "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." The time value assigned by the teacher to each of the students' work is correctly reflected on the teacher's register; therefore, there is no overstatement of attendance for these 2 students. District staff will include the review of documents in site visits to monitor proper completion of required documentation.

The school had recently conducted a workshop for the faculty which addressed various ways to ensure consistency and accuracy of information on the teacher register, assignment sheet, and student work sample.

S-05-05 Attendance Accounting – Independent Study – Missing Required Elements of Independent Study

Finding Types: 40000

School Affected

City of Angels

Identified 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.

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Criteria

California Education Code 51747, part (c), A requirement that a current written agreement for each independent study pupil shall be maintained on file including, but not limited to, all of the following:

- (1) The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress.
- (6) A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil upon completion.

Effect on Average Daily Attendance Reported for Apportionment

None

Recommendation

We recommend that the School monitor the agreements enacted by the teachers with the students and parents to ensure that they are accurate and complete.

Views of Responsible Officials and Planned Corrective Actions

School will provide in-service training to faculty regarding the proper completion of the required documentation for Independent Study. District staff will include the review of documents in site visits to monitor proper completion of required documentation.

S-05-06 Independent Study – Concurrently Enrolled Students

Finding Types: 40000

School Affected

City of Angels

Identified 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 School was unable to provide us with documentation verifying whether students were concurrently enrolled at another school.

Criteria

No pupils enrolled in the local education agency pursuant to subdivision (b) of California Education Code 48204 while engaged in full-time independent study.

Effect on Average Daily Attendance Reported for Apportionment

None

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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.

Views of Responsible Officials and Planned Corrective Actions

A full-time independent student at City of Angels cannot be concurrently enrolled at another secondary school. As part of the enrollment process, City of Angels requires that students provide a PAR (Pupil Accounting Report) before enrollment in full-time independent study. This report will provide the last day of attendance by the student in the regular school. The City of Angels can only enroll the student after the last date of attendance in the previous school.

S-05-07 Attendance Accounting – Continuation Education – Attendance Computations

Finding Types: 10000 and 40000

Schools Affected

Central Continuation High School

Identified 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.

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.

1991 Attendance Accounting and Reporting in California Public Schools, because 15 hours of attendance per week is the maximum amount of attendance with which a continuation pupil may be credited, it is not permissible for a pupil to "bank" credit for surplus hours of attendance and carry it forward beyond the week in which it was generated. If a pupil generates less than the maximum 15 hours of credit permissible

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within a full week, however, it then becomes permissible to credit a corresponding number of surplus hours generated in a succeeding week, so that on average the pupil will have generated “15 hours per week” since the pupil’s first day of enrollment in the term. In other words, it is not permissible for a continuation pupil to “get ahead” in attendance, but it is permissible for the pupil to “catch up” to the permitted average. (Note that the monthly reports should clearly link preceding “short” weeks to weeks in which more than 15 hours are correspondingly credited.)

Effect on Average Daily Attendance Reported for Apportionment

738 hours divided by 3 = 246 days / 125 = 1.968 ADA x \$4,862 = \$9,568

Recommendation

We recommend that the School 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.

Views of Responsible Officials and Planned Corrective Actions

All continuation high schools will be implementing the new attendance reporting system (ISIS) by the 2006-07 school year, which will ensure a more accurate and consistent attendance reporting, as well as provide all required documentation, including those for backfill hours. For the current year, the District will require an in-service to school staff regarding maintaining proper documentation on surplus hours used for backfill.

S-05-08 Attendance Accounting – Continuation Education – Work Experience

Finding Types: 10000 and 40000

Schools Affected

Central Continuation High School

Identified 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 School could not provide evidence supporting the work experience hours for 13 students resulting in a potential overstatement of 130 hours.

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.

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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.

Effect on Average Daily Attendance Reported for Apportionment

130 hours overstatement divided by 3 = $43.33 / 125 = 0.347$ ADA x \$4,862 = \$1,687

Recommendation

We recommend that the School 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.

Views of Responsible Officials and Planned Corrective Actions

Central Continuation High School's Response: The School has recently reviewed the proper attendance accounting and documentation requirements for the work experience program with the teachers. District staff will include the review of documents in site visits to monitor proper completion and maintenance of required documentation.

S-05-9 Instructional Time and Staff Development Reform Program

Finding Types: 40000

Schools Affected

Sheridan Street Elementary School
Hobart Boulevard Elementary School
Pio Pico Elementary School
Alexandria Elementary School
Monroe High School
Huntington Park High School
Taft High School
City of Angels
Perez Special Education Center

Identified 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.

- Sheridan Elementary School
 - There was no evidence that the employees were present for the entire day for Track A on September 1-3, 2004.
- Hobart Boulevard Elementary School
 - There was no evidence that the employees were present for the entire day for Track A on August 23, 2004.

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- There was no evidence that the employees were present for the entire day for Track B on October 20 and 21, 2004 and April 28, 2005.
 - There was no evidence that the employees were present for the entire day for Track C on October 26 and 27, 2004 and May 3, 2005.
- Pío Pico Elementary School
 - There was no evidence that the employees were present for the entire day for Track A on August 24, 2004 and March 3, 2005.
 - There was no evidence that the employees were present for the entire day for Track B on October 20 and 21, 2004 and April 28, 2005.
 - There was no evidence that the employees were present for the entire day for Track C on October 26 and 27, 2004 and May 3, 2005.
 - One employee was paid for a staff development day, but had no support for that employee's attendance in the course.
- Alexandria Elementary School
 - There was no evidence of content of the training provided, that the training provided was at least as long as an instructional day, or that employees were present for the entire day for Track A on March 3, 2005.
 - There was no evidence that the employees were present for the entire day for Track B on October 20 and 21, 2004 and April 28, 2005.
 - There was no evidence that the employees were present for the entire day for Track C on October 26 and 27, 2004 and May 3, 2005.
 - One employee was paid for a staff development day, but had no support for that employee's attendance in the course.
- Monroe High School
 - There was no evidence of content of the training provided or that the training provided was at least as long as an instructional day for Tracks B and C on April 28, 2005 and May 3, 2005, respectively.
 - There was no evidence that the employees were present for the entire day for Track B on April 28, 2005.
- Huntington Park High School
 - There was no evidence that the employees were present for the entire day for Track A on August 24, 2004 and March 3, 2005.
 - There was no evidence that the employees were present for the entire day for Track B on October 20 and 21, 2004 and April 28, 2005.

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- Four employees were paid for a staff development day, but had no support for the employees' attendance in the course.
- Taft High School
 - There was no evidence that the employees were present for the entire day for Single Track on September 1-3, 2004.
- City of Angels
 - There was no evidence that employees were present for the entire day for Single Track on September 1, 2004.
- Perez Special Education Center
 - There was no evidence that employees were present for the entire day for Single Track on September 1-2, 2004.

Criteria

California Education Code, Section 44579.1 Section(c), each fiscal year, the Superintendent of Public Instruction shall provide each school district applying for a grant pursuant to this article with a staff development allowance per day for up to three days for each certificated classroom teacher who participates in staff development instructional methods, including teaching strategies, classroom management, and other training designed to improve pupil performance, conflict resolution, intolerance and hatred prevention, and academic content in the core curriculum areas that are provided by the school district or county office of education.

California Education Code, Section 44579.1 Section (e), each staff development day shall be at least as long as the full-time instructional workday for certificated or classified instructional employees of the school district. For purposes of this section, a single staff development day may be conducted over several calendar days.

California Education Code, Section 44579.1 Section (e), to qualify as a funded participant, each eligible participant shall be present for the full staff development day, and records of attendance shall be maintained in a manner to be prescribed in regulations.

Questioned Costs

55 days x \$307 = \$16,858

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.

Views of Responsible Officials and Planned Corrective Actions

District Response: Office of Instruction issued new procedures, standardized forms, and templates for the remaining buy back days in 2005 in response to the audit released in January 2005.

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S-05-10 Attendance Reporting – Community Day School – Attendance Reporting Errors

Finding Types: 10000 and 40000

Schools Affected

Community Day School

Identified 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
- For the 6th hour attendance, we noted overstatements totaling 13 student days and understatements totaling 18 student days.

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.

Effect on Average Daily Attendance Reported for Apportionment

5th hour attendance overstated by 22 student days = $22 / 180$ (fixed divisor) x 0.5 credit x \$4,753 = \$290

5th hour attendance understated by 14 student days = $14 / 180$ (fixed divisor) x 0.5 credit x \$4,753 = \$185

6th hour attendance overstated by 13 student days = $13 / 180$ (fixed divisor) x 1 credit x \$4,753 = \$342

6th hour attendance understated by 41 student days = $41 / 180$ (fixed divisor) x 1 credit x \$4,753 = \$1,084

Total	\$1,901
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Recommendation

We recommend that the School review its current hourly attendance recordkeeping procedures to ensure that the school records accurately reflect each hour of student attendance or absence including the 5th and 6th period hours.

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Views of Responsible Officials and Planned Corrective Actions

The District will recommend that the School provide in-service training to faculty members and office staff in the accurate recording of hourly attendance, and in ensuring that attendance data is consistent throughout all attendance records (e.g., SIS, PRC, parent's note, and the like).

S-05-11 School Construction Funds – Transfer of Ineligible FEMA Costs to Bond Funds

Finding Types: 40000

School Affected

Angeles Mesa School	Granada Hills High School
Beckford Avenue School	Herrick Avenue School
Carson High and Eagle School	J. F. Kennedy High School
Cheremoy Avenue School	Miles Avenue School
Chester Nimitz Middle School	Mountain View School
Clover Avenue School	Strathern Street School
Coliseum Street School	Topeka Drive School
Darby Avenue School	Ulysses S. Grant High School
Dixie Canyon Avenue School	Valerio Street School
Dyer Street School	Van Nuys High School
Eagle Rock School	Wright Middle School
Fulton Middle School	San Fernando Middle School
Germain School	Wilson Senior High School

Identified 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 fro 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 provided 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.

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Criteria

California Education Code, Section 15146(b), the proceeds of the sale of the bonds, exclusive of any premium received, shall be deposited in the county treasury to the credit of the building fund of the school district. The bond proceeds withdrawn shall not be applied to any other purposes than those for which the bonds were issued.

Question Costs

\$10,636,852

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.

Views of Responsible Officials and Planned Corrective Actions

The district does not concur with the audit assumption that bond proceeds were not expended for the purposes that the bonds were issued.

The 1997 BB Bond included effort to repair and mitigate damage caused by the 1994 San Fernando Earthquake. FEMA funds were provided by the Federal Government on a reimbursable basis for qualifying damage from the earthquake. Effort was undertaken and reimbursed by FEMA. It was later determined by FEMA that some of this work performed was unallowable. The district Board authorized the use of Measure K funds to be used as an interim funding source for projects previously paid by FEMA, as an interim measure until Measure R funds were available. Measure R bonds had a provision for 'previously planned projects' which were in the original scope of the BB Bond. Based on this, costs were then transferred to measure R. In addition, the district has submitted and will continue to file to the state for state matching funds where possible. It is considered appropriate to use measure R funds for the purposes stated.

S-05-12 School Construction Funds – School District Bonds

Finding Types: 40000

Identified 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.

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Criteria

California Education Code, Section 15146 (b), the proceeds of the sale of the bonds, exclusive of any premium received, shall be deposited in the county treasury to the credit of the building fund of the school district. The bond proceeds withdrawn shall not be applied to any other purposes than those for which the bonds were issued. Any premium or accrued interest received from the sale of the bonds shall be deposited in the interest and sinking fund of the district.

Questioned Costs

\$1,000,000

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.

Views of Responsible Officials and Planned Corrective Actions

All funds are to be spent on District owned property. There is full expectation that the loan will be repaid. The transaction was reviewed and approved by the OGC, by the Bond Oversight Committee, and by the District's CFO.

S-05-13 School Construction Funds – State School Facilities Fund Expenditures

Finding Types: 40000

Identified 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.

Criteria

Expenditures from the school district's account in the county school facilities fund should be made only for qualifying school facilities expenditures as provided in subdivision (c) of Education Code Section 17070.43 and additionally set forth in Education Code Section 17072.35, or in Education Code Section 17074.25 as further defined in subdivision (f) of Education Code Section 17070.15; or for other high priority capital outlay purposes in accordance with the provisions of subdivision (c) of Education Code Section 17070.63.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

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California Education Code, Section 17070.43, subdivision (c), funds may be expended from the county fund by the recipient school district for qualifying school facilities expenditures set forth in Sections 17072.35 and 17074.25.

California Education Code, Section 17072.35, a grant for new construction may be used for any and all costs necessary to adequately house new pupils in any approved project, and those costs may only include the cost of design, engineering, testing, inspection, plan checking, construction management, site acquisition and development, evaluation and response action costs relating to hazardous substances at a new or existing school site, demolition, construction, acquisition and installation of portable classrooms, landscaping, necessary utility costs, utility connections and other fees, equipment including telecommunication equipment to increase school security, furnishings, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A grant for new construction may also be used to acquire an existing government or privately owned building, or a privately financed school building, and for the necessary costs of converting the government or privately owned building for public school use.

California Education Code, Section 17074.25, a modernization apportionment may be used for an improvement to extend the useful life of, or to enhance the physical environment of, the school. The improvement may only include the cost of design, engineering, testing, inspection, plan checking, construction management, demolition, construction, the replacement of portable classrooms, necessary utility costs, utility connection and other fees, the purchase and installation of air-conditioning equipment and insulation materials and related costs, furniture and equipment, including telecommunication equipment to increase school security, fire safety improvements, playground safety improvements, the identification, assessment, or abatement of hazardous asbestos, seismic safety improvements, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A modernization grant may not be used for costs associated with acquisition and development of real estate or for routine maintenance and repair.

California Education Code, Section 17070.63, subdivision (c), any savings achieved by the district's efficient and prudent expenditure of these funds shall be retained by the district in the county fund for expenditure by the district for other high priority capital outlay purposes.

Estimated Questioned Costs

\$1,744,706

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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Views of Responsible Officials and Planned Corrective Actions

Furniture and equipment for schools are those items necessary to transform buildings into an occupiable space suitable for teaching, learning and the associated supporting activities. The specific items included vary depending on the specific type of school facility. i.e. Computer labs, libraries, athletics, visual and performing arts, special education, food services, etc. Such furnishings and equipment range from electronic equipment to miscellaneous items. Musical instruments are also sometimes provided. The district considers the approach taken to be consistent with the definition of equipment in the California School Accounting Manual. The district will validate specific items with the state to insure they are authorized. Such items as coffee pots have on occasion been provided and this practice has been discontinued.

S-05-14 Instructional Materials – Insufficient Textbook and Instructional Materials Not Supported Insufficiencies Not Corrected Within Required Deadlines

Finding Types: 40000

Identified 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 K012 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

LOS ANGELES UNIFIED SCHOOL DISTRICT

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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.”

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.

Questioned Costs

\$35,222,818 (full amount of Instructional Materials Funding Realignment Program)

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.

Views of Responsible Officials and Planned Corrective Actions

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 requests 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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 the 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.

INDEPENDENT AUDITORS' MANAGEMENT LETTER



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December 22, 2005

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) for the year ended June 30, 2005, and have issued our report thereon, dated December 22, 2005. In planning and performing our audit of the basic financial statements of the District, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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-05-01 through FS-05-05 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.

Although not considered to be reportable conditions, we 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 249 to 268.

* * * * *



The Honorable Board of Education
Los Angeles Unified School District
December 22, 2005

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Education, District management, and others within the organization.

Very truly yours,

KPMG LLP

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

ACCOUNTS RECEIVABLE

(1) Segregation of Duties – Prior Year Observation

Observation

For accounts receivables that were written off, there seems to be a lack of segregation of duties. The departments in charge of preparing billing statements are entering journal entries to write off receivables. There is no centralized control over write-offs of receivables.

Impact

This may increase the risk of fraud because personnel will be able to write off a receivable and send a billing statement to a vendor to collect the receivable.

Recommendation

We recommend that the write-offs of accounts receivables be reviewed, approved, and signed by the department in charge of the receivables. Then, they should be forwarded to the accounting department for entering into IFS.

Management Response

District policy requires administrative approval for receivables write-offs. Since most of the items written off each year relate to billings generated by the Finance Division, it seems appropriate for the Accounting and Disbursements Division to approve these write-offs. The risk of fraud from collection of accounts previously written off is mitigated by the fact that all such payments are made by check, not cash. In the event that receivables initiated by another office or division are to be written off, procedures will be established to obtain their concurrence.

CASH AND INVESTMENTS

(2) Finance and Treasury – Check Receipt Process – Prior Year Observation

Observation

While performing substantive analytical procedures on the finance and treasury management process, we noted that 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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June 30, 2005

Management Response

No change in District response from prior year. The District still 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.

(3) Bank Reconciliation – Prior Year Observation

Observation – Standardized Format

We noted that the format of the District's bank reconciliations vary with the account that is being reconciled, and there is no standardized reconciliation template.

Recommendation

We recommend that the District standardize the reconciliation template to ensure that the reconciliations are consistently performed and reconciling items are identified and addressed.

Observation – Clearing Reconciling Items

During our current year audit, we noted certain reconciliations (e.g., Payroll APD, Automatic Payroll Deposit) contained errors that should have been updated in prior year but have continued to be present as reconciling items and are reflected in the IFS system. The District's IFS does not reflect the bank balance with enough accuracy in many instances. Reconciliations also contain errors and as these items have not been fixed, these differences distort the IFS balance.

Recommendation

Monthly bank reconciliations are a strong internal control feature over cash and could indicate any potential misapplications of cash. We recommend the District identify and resolve reconciling items each month in order to provide a more accurate accounting of the cash accounts, enhance the internal controls over the cash function, and improve cash management.

Management Response

After reviewing the reconciliation services available from Bank of America, the District determined that it would not be cost effective to purchase those services, particularly in light of the pending implementation of the new ERP system. The District has made an effort to reduce the number of old reconciling items in the various reconciliations and to resolve new reconciling items in a timely manner.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

(4) Use of Service Organizations – Prior Year Observation

Observation

While we managed to obtain SAS 70 reports during our procedures, the District currently does not have the policy and procedures of obtaining SAS 70 reports from its financial institutions or third-party administrators. The District does not know the adequacy of the internal controls of these service organizations that either hold the District's assets or process transactions on the District's behalf.

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, including Los Angeles County Office of Education (LACOE), as part of its normal operation outside of the audit process. 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.

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.

(5) Bank Reconciliations of Imprest Accounts – Prior Year Observation

Observation

To test the District's \$2,840,621 imprest fund cash balances, we requested a complete list of imprest accounts by bank account number and the corresponding reconciliations of all imprest accounts. The District could not distinguish imprest accounts from Student Body Accounts. Additionally, we also noted that although the District requests annual reconciliations of each schools imprest account, these reconciliations are not always provided to the District. The financial statement impact is that the imprest account balances of the District may not be properly recorded.

Recommendation

We recommend the District require all schools and offices holding branch accounts (DDA) at Bank of America to convert those accounts to corporate accounts. This would allow for a clear distinction between imprest accounts and student body accounts. We also recommend that the District enforce all entities that maintain an imprest account to submit an annual reconciliation for their respective imprest fund.

Management Response

The District agrees with this recommendation. We are in the process of creating a treasury branch within the Division of Accounting and Disbursements. This segregated function will assist the District to better manage its banking services and provide better controls. Moreover, we have assigned someone to create a complete database of all bank accounts, including the identification of imprest and Student Body Accounts. Communication to schools regarding the need for timely submission of reconciliations will be made and training will be provided.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

COMPLIANCE

(6) Grants Management

Observation

During procedures performed during our compliance audits, we noted that similar issues and findings relating to compliance with rules and regulations that had arisen in one District program in the prior year arose in a different District program in the current year. Each individual department/program is responsible for interpretation of regulations and compliance with grants, and 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.

Recommendation

We recommend that the District consider establishing a position with an individual responsible for training and oversight of grants to ensure that all requirements applicable to programs are shared among all programs throughout the District.

Management Response

The District agrees with the recommendation. We are in the process of identifying resources to fund staff to perform this function.

FINANCIAL REPORTING

(7) CAFR Preparation – Prior Year Observation

Observation

The preparation of the District's annual financial statements (i.e., the Comprehensive Annual Financial Report) is currently a manual process that depends on the creation of pivot tables generated using information downloaded from IFS. During the audit, we noted that data integrity was jeopardized on one of the financial statements generated, as one account was missing.

Recommendation

With the future implementation of the District's ERP system, we recommend that management consider the automation of the District's financial statement preparation. The automation of the preparation of the District's financial statements will facilitate managements review and analysis of the District's financial operations.

Management's Response- Current Status of Prior Year Finding

The District is currently in the midst of developing and testing the new ERP system, which will include automation (to the extent possible) of the preparation of financial statements, as well as invoices and other reports. The ERP system is expected to "go live" on July 1, 2006.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

(8) Analytical Review – Prior Year Observation

Observation

Although management performs a quarterly analysis of the District's general fund, we noted that there appears to be no formalized analytical review of the District's government-wide and fund financial statements.

Recommendation

A formalized analytical review of the financial statements and a budget to actual comparison should be performed at least quarterly.

Management Response

The District currently performs a comparison of budget to actuals in the course of preparing its required interim reports. In addition, analytical reviews and comparisons of budget to actuals are performed by various Finance staff for several funds. For example, the Assistant Budget Director for the Adult Education and Child Development Funds regularly reviews the financial activities of these Funds to ensure that revenues and expenditures are balanced. The Cafeteria Fund staff review revenues and expenditures in order to assess the viability of the Fund. The self-insurance funds are actively monitored by the Office of Risk Management and Insurance Services. In addition to annual actuarial reports for the Workers' Compensation Fund, District staff provides quarterly estimates of expenditures for the Health and Welfare Fund to Finance staff. Finally, management of the Capital Funds rests primarily with the Facilities Division, who reviews budgets and expenditures for individual projects on a very frequent basis. We acknowledge that Finance could plan a greater role in reviewing Capital budgets and expenditures.

It is the District's understanding that the new ERP system will contain two sets of general ledgers, one on a modified accrual basis in conformity with the State School Accounting Manual and one on a full accrual basis in accordance with GASB 34. As a result, the system will enable the District to prepare full-accrual basis financial reports at year-end earlier than we are currently able to do, and will allow more time to perform year-end analytical review procedures.

FIXED ASSETS

(9) Completion Dates of Projects

Observation

There is no formal documentation maintained which provides a clear-cut definition of "date of completion" for self-constructed assets. Based on our observation, it appears that the "date of completion" could either be the date of final inspection or the date of board approval. However, there is no formal policy that indicates the date that should be used to determine whether or not a project is completed. Date of completion is essential to determine when the asset should be depreciated. Therefore, lack of formal policy and formal documentation of the completion date could result in a misrepresentation of the classification of fixed assets and depreciation expense in the government-wide presentation.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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June 30, 2005

Recommendation

We recommend that the District establishes a formal policy that states the date to be used for determining a completion date in accordance with GAAP. We also recommend that formal documentation be prepared by Facilities upon completion of each constructed asset. The completed document should be approved by the appropriate Facilities Personnel (New Construction or Existing Facilities) and submitted to General Accounting so that the asset's cost can be recorded and depreciation could be calculated in a timely manner.

Management Response

The District concurs with the recommendation in general. The formal documentation that will be used to determine the date of completion will be the Notice of Completion which is filed with Los Angeles County Office upon completion of the project. A policy will be established and will be published in the District's website within the next 45 days. A copy of the Notice of Completion for each project will be routinely provided to General Accounting staff when approved and filed.

(10) Accounting for Leases

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 information should be collected into the system so that determination can be made during the District's annual lease review process.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

Management Response

The District concurs with the finding for increased documentation and training. Furthermore, the District Accounting Office will work more closely with the Procurement Office to obtain available information regarding individual lease agreements in addition to the master lease.

(11) Lease Disclosures

Observation

Aside from being a required disclosure in the CAFR, knowledge of future lease payment is critical to forecasting cash flows and computing other financial ratios. However, the lease schedule that was provided to us was incomplete. Without adequate control of all lease contract information, the disclosure on lease contracts could be inaccurate and incomplete.

Recommendation

We recommend that the District establish adequate controls to ensure that all leases should be accounted for at year end.

Management Response

The District agrees with this recommendation. We will work on developing a complete listing of leases and related information in order to provide improved information and better controls.

(12) Calculation of Minimum Lease Payments

Observation

Based on the provision of SFAS No. 13, the lessor shall compute the present value of the minimum lease payment using the interest rate implicit in the lease or the incremental borrowing rate (if the implicit rate is not known or higher). However, we noted that the District uses an arbitrary rate of 6% to calculate the present value of the minimum lease payments. According to Emma Gonzales (Financial Reporting), the 6% interest rate was the same rate used by the District when it first implemented the lease capitalization policy and was not changed since then. The discount or premium resulting from imputing the interest for capitalized lease may not be accurate.

Recommendation

We recommend for the District to start using the incremental borrowing rate of the lease contract in order to comply with the provisions of SFAS No. 13. In addition, we recommend that standard accounting and reporting policies be developed and that an employee at the Corporate level be appointed to review and monitor these reports on a routine basis.

Management Response

The District concurs with this recommendation. Due to the volume of capital leases entered into each year, the District feels that it is impractical to calculate the implicit interest rate for each lease. However, we will annually review the incremental borrowing rate and apply this updated rate in calculating the present value of minimum lease payments.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

(13) Accounting of Completed Projects

Observation

During the testing of the schedule of completed projects, we noted that the schedule was incomplete as the schedule includes only those which are under Division 37 (Facilities Division). There are other divisions such as the IT Department, Adult Education, and Early Childhood among others which do not provide and are not required to submit a list of their own completed projects to Financial Reporting. The costs of these projects may be sitting on the Construction in-Progress Account and may not be reversed resulting in overstatement of the account and understatement of depreciation expense.

Recommendation

We recommend that the District require all divisions to submit the status of their projects to Financial Reporting as of year end. This ensures that the costs of the completed projects are transferred to the appropriate fixed asset account and depreciation expense is computed accordingly.

Management Response

The District agrees with this recommendation. Communication to all divisions will be made to request information regarding status of projects at fiscal year end to ensure the latest available information is provided to the General Accounting Branch of the Finance Office.

(14) Fixed Assets – Monitoring Signs of Impairment – Prior Year Observation

Observation

Per discussions with the facilities management group, we noted that there are no personnel in charge of investigating whether or not there is impairment on fixed assets. The District should adopt policies and procedures in order to identify signs of impairment to prepare for the implementation of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which will be applied to periods beginning after December 15, 2004.

Recommendation

We recommend that the District adopt policies and procedures to routinely monitor signs of impairment utilizing cash flow analysis, and plans of closing schools and department branches.

Management Response

The District concurs with the need to monitor its assets for signs of impairment. However, due to its current budget situation, the District has been unable to allocate sufficient funds to establish the capacity needed to effectively address its asset management issues. The District is evaluating alternative plans to begin the process of asset management, including measurement of impairment.

(15) Lack of Change Management Procedures

Observation

The District's business critical applications such as ACES, SSIS, and ESIS currently operate in silos. The ACES application resides on Unysis Mapper, ESIS resides on System A, and SSIS resides on Secondary

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

SIS Wide. These applications are not run on the IBM mainframe and, as a result, changes do not follow the established Change Management procedures. System programmers and developers are responsible for system enhancements, maintenance, and also migrating system changes into the production environment. Without establishing formal policies and procedures over change management, the effectiveness of preventing or detecting inappropriate or unauthorized system changes is weakened.

Recommendation

We recommend that management establish formal policies and procedures related to change management for ACES, SSIS, and ESIS similar to those currently used for the IBM mainframe. Additionally, we suggest considering migrating applications to a more centrally managed environment to take advantage of change management policies and procedures currently in place.

Management Response

The District agrees with the observation, impact, and recommendations. The District is in the third year of the implementation of Integrated Student Information System (ISIS). This centralized integrated system will replace SSIS, ESIS, and ACES. This project is scheduled to be completed by December 2007. Prior to the ISIS implementation, the ACES, SSIS, and ESIS programming staff will develop and implement a change control procedure by January 1, 2006 to be approved by the ITD Security Office.

INFORMATION TECHNOLOGY

(16) Physical Security

Observation

Based on our review of physical security at the District, we noted the following security weaknesses: eight (8) users have inappropriate access to secure areas where sensitive financial information resides. Additionally, we noted that Morlin Management grants, modifies, and removes user access to restricted areas within the District's building, including data center. However, the District does not have full control over users with access to secure areas where sensitive financial information resides. Lack of proper security can potentially expose the District to an increased risk of unauthorized access to data within the financial systems in the absence of effective controls over assigning access to users.

Recommendation

We recommend that management perform a detailed review over the validity of all users and their access to various doors to sensitive financial information. This review should be conducted to ensure that only appropriate users have access secure areas and their access is in line with their job responsibilities. In addition, the District should take ownership of all personnel with physical access to the District's financial information.

Management Response

The District agrees with the observation, the impact, and the recommendation. The ITD Director of Data Operations will work with Morlin Management to perform a semiannual review of all access to all doors in the data center and will validate all access authorized by the District. The first semiannual audit will occur prior to January 1, 2006, and will continue on a semiannual basis until control of data center access is

LOS ANGELES UNIFIED SCHOOL DISTRICT

Observations and Recommendations

June 30, 2005

transferred from Morlin Management to the District. The ITD Director of Data Operations will document the audit procedure to be approved by the ITD Security Director prior to January 1, 2006.

(17) Restoration Process

Observation

Based on corroborative inquiry of IT personnel, we noted that the District performs backup and restoration process of financial information. However, the District does not perform 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. Without periodic test over restoration process, the District is exposed to an increased risk where information cannot be restored in the event that financial information is lost.

Recommendation

We recommend that management perform periodic testing over restoration process and quality of backup media.

Management Response

The District agrees with the observation, the impact, and the recommendation. The ITD Director of Data Operations will explore industry best practices with respect to periodic review of offsite media and restoration testing, and will document a testing plan to be approved by the Director of IT Security prior to January 1, 2006. The first test according to the approved plan will occur prior to July 1, 2006.

(18) 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 the District, 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. We noted ITD key mission critical applications such as IFS, PTRS, HRS, and Payroll as legacy systems.

Impact

Current District ITD key applications pose considerable problems (brittleness, inflexibility, isolation, nonextensibility, 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.

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- 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

In connection with the new ERP system, the District is in the midst of planning for the transition from legacy systems to the new Business Tools for Schools (BTS) system. Inventories of reports have been compiled for the first phase (finance) of the implementation, and work is ongoing on the human resources and procurements phases. As the implementations proceed, additional work will be done to compile inventories of production libraries and datasets, to determine how best to effect the transition to the new system, and to set appropriate security and access levels for all staff who will be users and supervisors of the new system.

(19) Lack of Business Continuity Plan and Disaster Recovery Plan – Prior Year Observation

Observation

Although the District does perform regular backups of critical systems and applications, a formal business continuity plan to ensure the timely recovery of its critical business processes and their required computing and communications requirements in the event of a disaster does not exist. In addition, a formal disaster recovery plan to minimize the disruption of critical operations and ensure some level of organization stability and orderly recovery after a disaster does not exist. The continued operations of the District depend on management's awareness of a potential disasters and their ability to develop a plan to minimize disruptions of critical business processes and the capability to recover operations successfully. The critical business processes of the District are dependent upon the uninterrupted flow of information throughout the District in the event of a disaster.

Impact

To minimize the financial and operational impacts to the business in the event of a disaster, a business continuity plan addresses the recovery of the critical business processes and their required computing and communications. The disaster recovery plan addresses the timely recovery of the District's supporting communications and computing systems in the event of a disaster.

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Recommendation

An organization-wide business continuity plan does not exist to address the critical business processes. We recommend that management develop and implement a formal business continuity plan to prioritize critical business processes and coordinate plans with the disaster recovery plan for the information systems. A business continuity planning process should address, at a minimum, the following key areas:

- Performing a Business Impact Assessment to determine the critical business processes and their maximum tolerable downtime
- Developing a Recovery Strategy to ensure recovery of the critical business processes within their maximum tolerable downtime
- Developing Recovery Plans to provide recovery, resumption, and restoration procedures for critical business processes
- Implementing the Recovery Strategy and Recovery Plans to enable emergency preparedness of predetermined critical business processes and their supporting communications and computing systems
- Developing and implementing Testing and Maintenance Programs for periodic review and updating of the business continuity plan to ensure its viability.

Management Response

The District agrees with the observation, the impact, and the recommendation.

The District is concerned with the lack of a global Business Continuity Plan for all District information systems in addition to the specific concerns raised by the lack of a business continuity plan for the specific systems addressed in the audit. Therefore, the District intends to address both issues. The Chief Operating Officer will designate a cross-division team to perform a business impact analysis during the 2005 – 2006 fiscal year to determine District operational priorities for a global Business Continuity Plan relevant to IT systems.

(20) 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. We noted 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.

Additionally, during our test work of the Position Control Component for the full-time, certificated, and classified positions, we noted that the position control for positions in HELD status did not operate effectively. By design, the HRS system should prevent employees from being assigned to positions in HELD status; however, during our test, we were able to successfully assign an employee to a position in

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HELD status. We noted that subsequent to our review, and per inquiry of Marion Liberotti, this control issue was resolved.

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.

Recommendation

We recommend that management consider applying the Position Control Component to all positions, including substitute/part-time positions.

Management Response

While the District agrees with the observation, impact, and recommendations, long-term solutions to the position control issue are dependent on the capabilities of the new ERP system, and the District's need to provide substitute teachers for classrooms on the same days when teachers are absent. The District expects to implement the human resources phase in January 2007.

(21) Lack of Periodic Application Security Review – Prior Year Observation

Observation

We determined that there is no formal application security procedure to determine the number of active/inactive IDs on a regular basis. Furthermore, there is no formal policy to determine the number of active/inactive IDs tied to terminated/separated employees. Hence, terminated employees may continue to have access to the various District applications after the District termination/separation date.

Impact

Without periodic review of each employee's access profile to the HRS, PTRS, PPPS, and IFS, employee's system privileges may not commensurate with the respective job description. Also, the employees' system access may still be active even though they are no longer performing receiving duties.

Recommendation

We recommend that management perform at least a semiannual review of user access profiles to ensure that users are provided with only the access required by their job functions. Furthermore, users who are no longer with the District should have their access deactivated/deleted.

Management Response

The District agrees with the observations, the impact, and the recommendation. The ITD Security Office has implemented an informal process to review all user IDs for IFS, HRS, PTRS and PPPS on a semiannual basis at a minimum, and ensure user IDs for inactive employees are disabled. This process will be formalized prior to July 1, 2006. With respect to the appropriateness of access of current employees to IFS, PTRS, HRS and PPPS, the formal process referenced above will specify minimum considerations for access review.

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OTHER MATTERS

(22) 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 an Audit Committee be established.

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. As indicated in last year's response, the Audit, Business, and Technology Committee currently embodies many of the attributes of a separate committee.

PAYROLL

(23) Record Keeping of Payroll Information

Observation

During our control testwork for payroll, two tax certificates and one offer of contract documents requested from the District were not provided because the latter was unable to locate the said files. Without maintaining the original documents, there is no evidence that the financial information is valid.

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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 orderly, we will review our recordkeeping procedures and provide training to staff to ensure adequate controls are in place.

(24) Review Over Payroll Reconciliation

Observation

During our control testwork over payroll and warrant payments, we noted that there is no review procedure over the accounting personnel's monthly payroll reconciliation. Even though the reconciliation is a control itself, the control would be strengthened with a review performed by an employee who didn't prepare the reconciliation. Without adequate review procedures over the reconciliation process, the payroll expenditures could be overstated or understated.

Recommendation

We recommend that the District establish a monthly review process of the payroll reconciliation and that the reviewer signs the reconciliation to denote review and approval.

Management Response

The District agrees with this recommendation. We plan to establish a monthly review process of the payroll reconciliation and provide evidence of review and approval.

(25) File Retention

Observation

During our control testwork over payroll and warrant payments, we noted that the letters sent to Los Angeles County Office of Education to request wire transfers to cover payroll expenses were not retained for the fiscal year ended June 30, 2005. Without the retention of these documents, there is no proof of whether the letters were approved and signed by an authorized requestor.

Recommendation

We recommend that the District adopt file retention policies.

Management Response

The District agrees with this recommendation. A file of wire transfer requests to cover payroll expenses sent to Los Angeles County Office of Education will be maintained.

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(26) Pay Rate Changes – Prior Year Observation

Observation

Based on discussion with the personnel commission director, we note that when new pay rate schedules are entered into the system for classified employees, the personnel commission e-mails the information to payroll, and Payroll creates input documents 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. This control mitigates the risk of errors or fraud in the payroll system. Without documented approval of this control, there is no proof that the control activity was performed.

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. In the meantime, we will pursue a short-term solution to this documentation issue.

(27) Timesheet Approval – Prior Year Observation

Observation

Based on discussion with District management, we noted that timesheets are approved by principals at the District's school level. However, the number of employees at the schools can range anywhere from 100 – 300 employees. Given the large number of possible employees at a respective school, there is a risk that a single principal would not have adequate information to properly approve the timesheets.

Recommendation

We recommend that timesheets be approved at the department level or each grade (where attendance/time tracking is feasible), and then sent to the Principal for approval. Implementation of this control would mitigate the risk of errors in timesheets, fraudulent time reporting, and errors regarding ghost employees.

Management Response

The District disagrees with the recommendations and will continue with the existing processes. School principals, as the designated managers responsible for the business operations of their schools, will continue to certify (not approve) timesheets for school staff. Since the duty descriptions for nonmanager certificated personnel does not include approval of time declarations of other certificated employees, it is not appropriate to expect department chairs (who are nonmanager certificated personnel) to approve time declarations of other nonmanager staff.

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PROCUREMENT

(28) Vendor Database Review Process

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 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 one percentage error rate. Nonetheless, the District can look into the feasibility of a periodic management review to further reduce potential errors. In addition, the implementation of the new ERP system will provide better tools for vendor validation.

(29) Recording of Receipt of Goods

Observation

It appears that there is no documented control over receipt of goods at school sites. The District policy states that goods should be entered online via the IFS system at the point of time received; however, personnel indications are that this does not take place. During our control testwork, all indications from personnel implied that book purchase orders are not recorded as received until full receipt of, and that at the year end, school tendency is to record goods as received in the IFS system, when no actual receipt has taken place. This is done in order to fully utilize fiscal fund revenues. For operation purposes, the lack of control may have a negative effect, as purchase orders may be paid before full receipt of the order. This actually ensures legitimate payment. For accounting purposes, this poses a problem as book purchase orders constitute a large number of transactions fiscally. Improper controls at point of receipt (schools) will result in understated or overstated payables, and obscure any cut-off procedures.

Recommendation

We recommend that the District provides employees adequate training and monitor the employees to ensure that the employees adhere to District policies.

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Management Response

The District agrees with the recommendation. Training will be reinforced to emphasize the timing of recording of online receivers.

(30) Signature Identification

Observation

All contract invoices submitted for payment are reviewed by the payer in Accounts Payable Contract Section to determine if properly authorized by Building Program Accounting Technician (BPAT). We noted, however, that the BPAT does not affix his printed name on the Request for Payment (RFP). Failure to identify the signer's identity by affixing the person's printed name in addition to the signature usually leads to confusion and waste of time on the part of the payer. The payer has to search through all of the specimen signatures on her file to identify if the signatures indicated at Section 3: Facilities Contract Invoice Unit Review and Approval portion of the RFP are who they purport to be.

Recommendation

The BPAT should indicate his printed name prior to signing the RFP so as to help the payer save time in identifying the signature.

Management Response

The District agrees with the recommendation. The Facilities Contract Invoice Unit accounting staff has been notified to print their names and to sign the payment request packages they review. This procedure is effective immediately.

REVENUE

(31) Submission of Statistical Report

Observation

During our control testwork over 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.

Recommendation

We recommend that the District implement procedures to ascertain that all schools submit their statistical reports on time.

Management Response

The auditor's observation is correct in that some of the schools were late in the submission of the Statistical Report based on internal deadlines established by the Attendance and Enrollment Section. These District timelines were established to allow adequate time for review and aggregation of data to ensure that the report is submitted to the state timely. This proves our procedures and timelines are working effectively and meeting the objectives. Moreover, the effort noted by the auditor, "The revenue limit apportionment could be understated due to incomplete data" is not 100% accurate. The District procedure is for staff to

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ensure all reports are posed in the system before the monthly and P1, P2, and P3 reports are produced. In addition, California Department of Education allows for corrections and amendments of report.

(32) Calculation of Meals Served

Observation

During our control testwork over meals served at the Cafeteria, we noted several computation errors of total meals served in some of the weekly meal reports prepared by schools selected as samples. These reports are eventually entered into the UNISYS system, which accumulates the meal serve counts by the District. Computation errors of meals served could lead to overstatement or understatement of the total Cafeteria income that should be claimed from the federal and state government.

Recommendation

We recommend that Cafeteria managers responsible for the review of the reports submitted to the Food Services Department for consolidation should, at a minimum, check the weekly meal reports to ensure the mathematical accuracy of the information.

Management Response

The District agrees with this recommendation. However, due to the tedious nature of the manual processing of meal accountability reporting, human errors are inevitable. The Food Services Branch has recently hired a project management team to develop and implement a short-term solution, which will automate the daily sales report and electronically transmit data to central office for consolidation. This automation process should minimize mathematical errors.

(33) Risk of inaccurate Average Daily Attendance (ADA) calculation

Observation

We noted six (6) incorrect Average Daily Attendance (ADA) calculations related to elementary school attendance on the ACES Ledger Report. However, we confirmed this report is not used to report attendance to the state. The P1, P2, and P3 reports are used to for reporting, which were tested without error in all cases. At the time of writing, management was unable to provide details on when the error

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(incorrect calculation on the ACES ledger) was introduced, the resource responsible, and corrective action plan. Without an analysis of the finding and a corrective action plan established, the application may be subject to further inaccuracies.

Recommendation

We recommend that management perform an analysis of the error to determine the cause of the issue, and develop a corrective action plan to prevent further inaccurate calculations in the application.

Management Response

The District agrees with the observation, impact, and recommendation. The modification to the adjustment program was not correctly made. A more thorough quality assurance testing plan will be developed by August 2005 to ensure the accuracy in all the reports.

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(1) Finding FS-04-01 – Lack of System Integration

Condition

We noted that the District's business critical applications such as IFS, PPPS (Payroll), HRS, PTRS, and 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 LAUSD 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 Los Angeles Unified School District (LAUSD or the District) agrees with the recommendation.

The District has successfully completed a Request for Proposal (RFP) solicitation for an ERP package that will integrate the functionality of the current systems in a modern HR/Financial software (ERP) package to address the concern. The District anticipates placement of the Human Resource/Payroll functionality of the ERP system into production in the District on or about January 1, 2007. The General Ledger functionality of the ERP system is anticipated to be in place on or about July 1, 2006.

(2) Finding FS-04-02 – Application security configuration

Condition

Based on our limited review of application security at LAUSD, we noted the following security weaknesses:

- 3 users with inappropriate access to approve the migration of changes into the production environment
- 6 users with inappropriate access to update the Grant Revenue Table (GRDT)*
- 57 users with inappropriate access to update the Revenue Resource (RSRC)* table
- 25 users with inappropriate access to the Programs (PROG)* table
- 3 users with inappropriate access to update the Purchasing Authority Delegation (PADU) table
- 7 users with inappropriate access to change/approve the payroll employee master file

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- 19 users with inappropriate access to post manual journal entries in relation to the procurement process.

These users with inappropriate access consist of employees that have resigned, retired, or changed job positions. We understand that there are two layers of security, the RACF mainframe level and the application level security. Although we were able to determine that approximately 16 users had inactive RACF access, thereby preventing these users from accessing any of the District's applications, there were still quite a few users with currently active inappropriate access to the above-mentioned tables/functions.

- * We noted that equally important to the IFS system validation of revenue source codes to help ensure the proper recognition of revenue, is the set up of accounting lines and grant budget information. To help ensure the proper mapping of grant codes to revenue codes, key database tables in the IFS system should be restricted to authorized personnel in the Accounting department. These key tables include the 'GRDT' (Grant Description Table), 'RSRC' (Revenue Source), and 'PROG' (Program) table.

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). 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 and HRS systems.

Current Status

Implemented. The District agrees with the observation, the impact, and the recommendation. The ITD Security Office has implemented an informal process to review all user Id's for IFS, HRS, PTRS and PPPS on a semiannual basis at a minimum, and ensure user Id's for inactive employees are disabled. This process will be formalized prior to July 1, 2006. With respect to the appropriateness of access of current employees to IFS, PTRS, HRS and PPPS, the formal process referenced above will specify minimum considerations for access review.

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(3) 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 consists of a manual tape download/upload. During our test work over the system interfaces within the HR/Payroll process, we noted the following:

- The interface from HRS to PTRS 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 thoroughly.
- The interface from PTRS to PPPS lacks adequate controls to make certain all records have been processed thoroughly. No identifiable controls for timecard record completeness exists.
- Although a record count is manually performed to verify the accuracy of the records of unedited payroll information on the tape against the payroll information uploaded into IFS occurs, there is no record count reconciliation being performed to compare the records successfully read and uploaded into the destination system (IFS) from the source system (PPPS).

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.

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;
- 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.

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Fiscal Year Ended June 30, 2005

Current Status

Partially implemented.

District Explanation If Not Implemented.

The District intends to resolve this item with the same strategy outlined in response to finding FS-04-01.

(4) Finding FS-04-04 – Lack of System Access Segregation of Duties

Condition

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 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 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.

Recommendation

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.

Current Status

Implemented.

F-04-01 – Cash Management – Interest Income from Advances not Returned to Federal Government

F-02-04 – Compliance with Federal Cash Management Requirements.

F-01-04, F-00-3, and F-99-2 – Interest Earned on Federal Programs

Condition

NCLB Title I, Part A: During our procedures over Cash Management, we noted that an estimated \$1,464,402 was earned in interest income from various Federal program cash advances. The excess interest was not remitted to the Federal Government.

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Comprehensive School Reform (CSR): During our procedures over Cash Management, we noted that an estimated \$39,076 was earned in interest income from various Federal program cash advances. The excess interest was not remitted to the Federal Government.

Enhancing Education Through Technology (EETT): During our procedures over Cash Management, we noted that an estimated \$63,611 was earned in interest income from various Federal program cash advances. The excess interest was not remitted to the Federal Government.

Child Nutrition Care Food Program: During our procedures over Cash Management, we noted that an estimated \$114,290 was earned in interest income from various Federal program cash advances. The excess interest was not remitted to the Federal Government.

Beyond the Bell Program: During our procedures over Cash Management, we noted that an estimated \$3,844 was earned in interest income from various Federal program cash advances. The excess interest was not remitted to the Federal Government.

Recommendation

We recommend that the District comply with Federal Cash Management requirements. If appropriate, the District should obtain positive confirmation of the waiver of the requirements from the various Federal agencies.

Current Status

Partially implemented.

District Explanation If Not Implemented

The District has continued to try and obtain agreement by the USDE to retain interest earnings on Title I grant funds and will communicate again with USDE. As of this writing, the District has been unsuccessful in obtaining that agreement. As a result, the District continues to set aside the accrued interest in its books.

The District has revised the expenditure report for the Enhance Education Through Technology Formula Grant to reflect the \$63,611 earned interest income. Please refer to the attached documentation.

In order to reduce the District's liability for interest income on cash advances for the Child Nutrition Care Food Program, the Director of Food Services has requested the discontinuance of advanced payments. Please refer to the attached documentation.

(5) F-04-02 – Allowable Costs – Controls over Meal Counts

Condition

Child Nutrition Care Food Program: In our review of 30 daily meal 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 meals.

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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

Partially implemented.

District Explanation If Not Implemented

The Food Services Branch continues to conduct random audits of meal counts to ascertain their accuracy. The Branch is also proceeding with a plan to implement a cafeteria management system which will automate the labor intensive tasks that are prone to human errors. The cafeteria management system will improve the accuracy of meal accountability, completeness, and timeliness of the meal claims.

(6) Finding F-04-03 – Allowable Costs – Incorrect Meal Counts Claimed

Condition

In our sample of 30 daily reports, which are used to compile the monthly claims, we noted 7 reports contained mathematical errors, which resulted in 61 miscounted meals. We also noted 2 reports that were input incorrectly into the District's Meal Reporting System, which resulted in 21 over claimed meals.

Recommendation

We recommend that the District review its existing policies and procedures to strengthen controls over the meal counting process performed at its schools to help ensure that more accurate counts are claimed.

Current Status

Partially implemented.

District Explanation If Not Implemented

The Food Services Branch agrees that incorrect meal counts jeopardize our accountability and may negatively impact the financial status. Currently the meal counting procedure is done manually. Cafeteria employees are counting over 350,000 meal tickets by hand daily. These counts are recorded on the Weekly Reports and sent to central office. Employees at the central office enter these data manually into the District's computer system. This manual process is tedious and error prone.

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Area Food Services Supervisors will monitor and review the accuracy of this process. As stated above, the Food Services Branch plans to implement a cafeteria management system which will eliminate the manual counting of meal tickets and manual data entry. This system will automate the meal counting procedure and improve accuracy of the meal claims significantly. The Branch also is conducting random audits of meal counts to provide greater assurance that counts are accurate.

(7) Finding F-04-04 – Eligibility – Incorrect Compilation of Free, Reduced, and Full-Price Students

Condition

In our sample of 25 schools, which are used to compile the annual survey which allocate the meals served into Free, Reduced, and Full-Price categories for the year, we noted 9 schools with errors in their participants' counts, which affects the ratio of meal allocations claimed for the year.

Recommendation

We recommend that the District review its existing policies and procedures to strengthen controls, such as a secondary review, over the annual survey compilation process to help ensure that more accurate data is compiled to calculate the annual allocation percentages so that accurate types of students are claimed.

Current Status

Implemented. The Food Services Branch agrees with the importance of eligibility data integrity and its financial impact. We provide annual training to cafeteria staff that are responsible for this October participation survey.

(8) Finding F-04-05 – Eligibility – Noncompliant Student Applications Accepted for Free, Reduced, and Full-Price Students

Condition

Child Nutrition Care Food Program: In our sample of 25 student applications, we noted 1 error made by the District employee in calculating the household income. However, this error did not affect the eligibility status of the student.

Child Nutrition Cluster: In our sample of 25 student applications, we noted 2 applications that were not signed as required by a parent or adult in the household. We also noted 2 errors made by the District employee in calculating the household income. However, these errors did not affect the eligibility status of the students.

Recommendation

We recommend that the District review its existing policies and procedures to strengthen controls, such as a secondary review, over the annual survey compilation process to help ensure that more accurate data is compiled to calculate the annual allocation percentages so that accurate types of students are claimed.

Current Status

Partially implemented.

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District Explanation If Not Implemented.

The Food Services' Branch complies fully with all federal verification requirements. The majority of the meal applications are processed and meal eligibility determined at the school sites by cafeteria staff. The Meal Compliance Audit unit in the Food Services Branch employs six Audit Clerks and one Senior Audit Clerk to perform, among other duties, audits on meal applications at schools sites for correct processing and eligibility determination. When errors are found, the Meal Compliance Audit Clerks will take appropriate action to correct the meal eligibility. Toward this end, we provide annual training to employees to increase their knowledge and skills in application processing. We will continue to provide training and feedback to employees when we find errors.

As stated previously, the planned cafeteria management system will enable us to electronically scan meal applications as well as store the data in the system. Meal applications will be electronically processed and meal eligibility determined automatically based on the required information provided by the household and the income scale provided by the USDA. This system is a more cost efficient and effective method in ensuring the accuracy and timeliness of meal eligibility determination.

(9) F-04-06 – Donated Value of Food Commodities Not Reported on Schedule of Expenditures of Federal Awards

Condition

We noted that the District did not report the \$11,745,539 received in food commodities during the fiscal year on its schedule of expenditures of Federal awards.

Recommendation

We recommend that the District revise its current procedure for its preparation of the schedule of expenditures of Federal awards to include donated commodities to ensure compliance with OMB Circular A-133 and that all expenditures are accurately reported.

Current Status

Implemented. The District has implemented procedures to include the fair market value of donated commodities in its Schedule of Expenditures of Federal Awards (SEFA).

(10) 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.

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Recommendation

We recommend that District review its current records 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 California Department of Education and the United States Department of Agriculture, the regulatory agencies for all child nutrition programs, as supporting documents of meal claims in previous audits (Coordinated Review Efforts.)

(11) Finding F-04-08 – Special Tests and Provisions – Verification of Free/Reduced Price Applications – No Controls over Verification Process

Condition

In our procedures performed over the verification of free/reduced price applications, we noted that as employees perform the recalculations of student eligibility, no monitoring or oversight procedures were performed over the employee's re-computations.

Recommendation

We recommend that District develop and implement a monitoring process, which may include a secondary review of a sampling of verified applications to ensure that the employees are performing the verification procedures appropriately. Such a procedure will help ensure compliance of verification requirements and accuracy of student eligibility classification in the school nutrition programs.

Current Status

All school districts in the United States participating in the National School Lunch program must follow the income verification procedures established by the United States Department of Agriculture which includes specific controls. The Los Angeles Unified School District follows these prescribed steps.

Annually there are approximately 20-25 schools and about 150 students at each school randomly selected to participate in the income verification process. The Meal Compliance Audit Clerks are assigned to these selected schools to initiate and complete the process. Meal benefits are continued, increased, decreased, or terminated depending on the outcome of the income verification. Parents are notified of the results of this process. A Senior Meal Compliance Audit Clerk conducts training on verification procedures for the Meal Compliance Audit Clerks each year before this process begins in September. After the verification process

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is completed, this individual reviews completed files randomly. Due to workload constraints, it would not be feasible to review each file. Our current procedure has been approved by the California Department of Education and the United States Department of Agriculture.

We believe that a cafeteria management system will improve the income verification process by placing checkpoints and requiring documentation at each critical step.

(12) Finding F-04-09 – Special Tests and Provisions – Verification of Free/Reduced Price Applications – Errors in Verification of Student Applications

Condition

In our sample of 30 verified applications, we noted 3 students where the District did not obtain acceptable supporting documentation for all the household income, we noted 3 students for whom the District incorrectly recalculated income, and we noted 1 error in recording the student in the summary sheet. In our procedures performed over the verification of free/reduced price applications, we noted that as employees perform the recalculations of the student eligibility, no monitoring or oversight procedures are performed over the employees' recomputations.

Recommendation

We recommend that the District investigate other options of verification of student eligibility to meet Federal verification requirements, which may include the use of technology. A household's eligibility may be confirmed through the use of information maintained by other government agencies to which the District has legal access. One source of agency records is the wage and benefit information maintained by the State employment agency if that information is available to the verifying official. The use of automated processes would significantly decrease the employee time needed to complete the verification requirements and it would also improve the accuracy of the information provided.

Current Status

We disagree with the finding.

District Explanation If Not Implemented

Documentation supporting the existence of random sampling of meal applications was provided to the auditor. This documentation remains available in our Food Services' offices, and is available for review. We believe the random sampling of meal application counts currently performed by Food Services' personnel provides sufficient assurance that these counts are being conducted according to prescribed policy.

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(13) F-04-10 – 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 that was transferred to the general fund of the school district using SACS object code 7619. This transfer was made in accordance with a State of California Assembly Bill provision. Per review of State of California memorandums for similar budget transfer provisions, they warned districts to exercise caution if the school food program receives federal funds to avoid a possible audit exception.

The State Budget Act and Related Finance Legislation (K-12 School Districts) Financial Planning for Superintendents, Business Administrators and Financial Administrators, states “As a condition of receiving the funds provided for the group of programs identified in General Section 12.40(b), LEA must report to the CDE regarding any amounts shifted between these programs pursuant to the transfer provisions (i.e., SACS Form CAT). LEAs are to use SACS object Code 8998 when making flexibility transfers.” Per our review of the CAT submitted to the Los Angeles County Office of Education on September 15, 2004, there were no Section 12.40 Transfers (object 8998 transfers) reported. The District maintains separate revenue accounts for its Federal and State nutrition programs but pools the total expenses. This transfer was made out of the pooled expenses, with the intent of the allocation from the State program funds. In reviewing the effect of this transfer, it caused a loss to be incurred for the State program, which would then have to be covered by profit from the Federal program. Therefore, the effect of this transfer removed profits from the Federal nutrition program, which were required to be used to improve food service operation.

Recommendation

We recommend that the District assess the appropriateness of the transfers out of the program and replenish such funds if deemed necessary.

Current Status

Implemented. The District has processed transfers to return the excess funds transferred out.

(14) F-04-11 – Allowable Costs – Controls over Other Than Payroll Expenditures

Condition

In our sample of 30 other than payroll expenditures, we noted 2 expenditures that were paid without proper approvals.

Recommendation

We strongly recommend that the District review controls for approving invoices to be charged to Federal programs to ensure that only approved expenditures are being charged to the programs.

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Current Status

Implemented. The two expenses that were paid without proper approval were incurred by YS CARE and LA's BEST, which operate under separate joint venture agreements. We have reviewed controls and have instituted procedures to ensure that only approved expenses are being charged to the programs. See attached sample of approved requisition with two signatures.

(15) F-04-12 – Allowable Costs – Payments Made to Subrecipients Do Not Match Underlying Support

Condition

In our sample of 15 payments made to service providers, 7 of the corresponding attendance reports did not support the number of children billed, amounting to a net overpayment for 3,545 students.

Recommendation

We strongly recommend that the District review controls for approving invoices to be charged to Federal program to ensure that service provider invoices are reconciled to the supporting attendance reports before payments are made.

Current Status

Implemented. The discrepancies that were revealed in the audit were based on monthly attendance figures, which in some cases, may have gone above or below actual attendance. Previously these reports were reconciled periodically. As a result of the auditor's suggestions, we are now reconciling to supporting attendance reports on a monthly basis before payments are made.

(16) 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 over claimed 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

Partially implemented.

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District Explanation If Not Implemented

All claims are now supported by signed daily attendance rosters. In Fiscal 2004-05 we implemented a random sample review of daily rosters, but this did not give us adequate control. In Fiscal Year 2005-06 we have implemented a random selection process that asks for a full month of daily rosters. We believe this will give us understanding of how each agency reports their attendance and the accuracy of these reports. Please refer to the attached meeting agenda and minutes which discuss this new procedure.

(17) F-04-14 – Allowable Costs – Expenditures Charged to the Incorrect Program

Condition

During our procedures performed over allowable costs, we noted six invoices for one of the District's service providers were charged to the incorrect Federal program.

Recommendation

We strongly recommend that the District review controls for approving invoices to be charged to Federal programs by ensuring that only program-related costs are charged to the program.

Current Status

Implemented. Controls have been strengthened to ensure that the correct school program is charged to the correct grant. An additional person was hired to review invoices to ensure that expenditures are charged to the appropriate grant.

(18) Finding F-04-15 – Allowable Costs – Controls over Payroll

Condition

In our sample of 30 timesheets for employees that were charged to the program, we noted 3 timesheets that were not signed by the employee. However, the employee was paid and costs were charged to the program without being detected by any payroll control.

Recommendation

We strongly recommend that the District review the programs controls for payroll charged to the federally funding program by ensuring that the document meets the applicable Federal standards.

Current Status

Implemented.

(19) F-04-16 – Allowable Costs – Incorrect Salary Hours Charged to the Program

Condition

In our sample of 25 payroll expenditures charged to the program, we noted 4 employees whose timesheet hours did not support 30.75 hours charged to the program. Also, in the same sample, we noted 8 additional hourly employees who were paid for only the first 80 hours indicated on their timesheets for a total of 640 hours, where the timesheets indicated that they worked a total of 669 hours.

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Recommendation

We strongly recommend that the District review controls for time allocation charged to the program by ensuring that the document meets the applicable Federal standard.

Current Status

Implemented. All subrecipients have been reminded of the requirement that employee's not exceed the maximum number of hours per pay period. Time sheets are being reviewed randomly for compliance.

(20) F-04-17 – Allowable Costs – Documentation Standards for Multi-Funded Employee Positions

Condition

During our procedures performed over payroll costs to the program, we noted one employee who was funded by multiple programs. The employee did not complete a multi-funded timesheet or an annual or semiannual certification of her time allocations, which supported the hours charged to the program.

Recommendation

We strongly recommend that the District review the programs controls for time allocation charged to the program to ensure that the document meets the applicable Federal standards.

Current Status

Implemented. We noted the error in the multi-funded employee's time at the end of the 2003-04 school year. It was corrected in the 2004-05 school year and we are now in compliance with multi-funded employee time requirements. See attached BUL-889.1 Multi-Funded Personnel Time Reporting. Please refer to the attached Bulletin BUL-889.1.

(21) 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 21st Century after school programs to ensure that the District can adequately demonstrate their compliance with these requirements.

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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 21st Century after school programs.

(22) Finding F-04-19 – Reporting – Records Retention

Condition

The District failed to maintain appropriate copies of its 1st quarter expenditure report submitted to the California Department of Education; thus, we were unable to subject it to auditing procedures.

Recommendation

We recommend that the District establish formal records retention policies and procedures that comply with Federal requirements. Programs funded by Federal Awards should have appropriate supporting documents to ensure that applicable parties can properly audit their programs in accordance with OMB Circular A-133 requirements.

Current Status

Implemented.

(23) F-04-20 – Reporting – Unsupported Expenditure Reports and Errors in Attendance Reporting

Condition

We noted that expenditures included in the annual expenditure report and the final close-out expenditure report are not supported by the expenditures recorded in the general ledger.

We also noted that in our sample of 25 school attendance reports which support the quarterly attendance reports submitted to the California Department of Education by the District, we noted that attendance was incorrectly reported for the 1st quarter for 2 schools and for the 1st, 2nd, and 3rd quarters for a third school. All of these differences were corrected in the 4th quarter report instead of submitting revised quarterly reports. This resulted in overstated 4th quarter attendance by 8,423. We also noted that the attendance reported for the 4th quarter was not accurately supported by 4 additional school reports, which resulted in a net 3,835 underreported students to the California Department of Education.

Recommendation

We recommend that the District develop an effective review process over its reporting process to ensure that the information reported is accurate and adequately supported by source documentation.

Current Status

Implemented. We have now instituted monthly reconciliations and we will ensure revisions to the quarterly report will be made in the appropriate quarter. Agencies are required to inform us of any revisions of their attendance records within 30 days of making these revisions. See attached Beyond The Bell memo on Policies and Procedures.

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(24) F-04-21 – Procurement – Noncompetitive Bidding for Awards to Service Providers

Condition

In our sample of ten procurements from service providers sampled for procurement, we noted that all ten of the procurement files did not contain documentation to support that they were awarded competitively. The District partnered with known service providers and did not give equal opportunity to other providers within the community to participate in the program.

Recommendation

We recommend that the District follow existing procurement procedures for future contracts for this program to ensure that equal opportunity is given to all providers wishing to participate in this program.

Current Status

Implemented. Procurement Services' personnel have worked with the Beyond the Bell branch to establish procedures that have been designed to ensure full and open competitions are conducted when required. Additionally, procurement reform measures adopted in 2003 established criteria for waivers from competition requirements, and the Beyond the Bell branch is now complying with these requirements. Since the application process for Cohort 2 (2003-2004), we are following existing procurement and RFP procedures to ensure that equal opportunity is given.

(25) F-04-22 – Procurement – Compliance with Contract Provisions

Condition

In ten of the ten service providers sampled, we noted that the District did not obtain the required certifications from the service providers regarding clearances.

In five of the ten service providers sampled, we noted that the insurer rating was below the contract requirement and was accepted by the District. We also noted that the District did not maintain documentation to support that the insurance policies were current for eight of the ten contractors.

Recommendation

We recommend that the District strengthen its reviews over its subcontractors and vendors to ensure that it is complying with required contract provisions that could result in potential liability to the District.

Current Status

Implemented. Beyond the Bell, the Contract Administration Branch, and Risk Management are working closely to ensure that service providers submit annual updates of their employee clearance certifications and insurance certifications.

(26) F-04-23 – Procurement Suspension and Debarment Certifications

Condition

We noted that the District had not updated its procurement policy for the reduction in the threshold required for verification/certification of suspension and debarment of vendors.

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It was also noted the District did not obtain certifications that the organizations are not suspended or debarred from participating in Federally funded programs from the service providers for NCLB Title I, Part A and 21st Century Community Learning Centers.

Recommendation

We recommend that the District update its existing policies to reduce the threshold for a vendor to sign certificate of suspension and debarment down to \$25,000 in accordance with Federal guidelines. We also recommend that the District add the required suspension and debarment language into future contracts with after-school service providers for both the Title I, Part A and 21st Century programs.

Current Status

Implemented. The Procurement Services Group has implemented debarment certification procedures that reflect the reduced threshold for verification/certification of debarment and suspension of vendors to procurements valued \$25,000 or more. Please refer to the certification form on debarment and suspension that is used in current contracting procedures.

(27) F-04-24 – Subrecipient Monitoring – No Fiscal Monitoring Procedures Performed on Subrecipient During Fiscal Year

Condition

We noted that no fiscal monitoring was performed on the subrecipients during the fiscal year 2003/04, nor were any single audit reports of the subrecipients requested or reviewed.

Recommendation

We strongly recommend that the District establish strong monitoring policies and procedures to ensure that the subrecipients are complying with program requirements. The District should impose appropriate sanctions on subrecipients that do not submit their A-133 Single Audit reports in a timely manner. By implementing this recommendation, the District can properly review the subrecipients Single Audit reports for financial information and internal control or compliance findings. If subrecipients are determined to be noncompliant, the District will then be able to implement sanctions and more closely monitor those subrecipients that are not taking appropriate corrective action.

Current Status

Implemented. Independent audits are submitted to BTB and reviewed to ensure agencies are complying with program requirements.

(28) F-04-25 – Subrecipient Monitoring – Federal Award Information Identified to Subrecipients

Condition

In our review of the after school service provider's master contract, we noted that the District is not properly identifying the Federal Award information to its subrecipients. Based on our review of the Subrecipient contract, the CFDA number, and name of the federal agency were not identified on the contract.

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Recommendation:

We recommend that the District include a Federal Award identification clause in all District contracts with subrecipients who receive pass-through Federal funding. We further recommend that the District communicate at the end of the fiscal year to its subrecipients advising them of:

- The amount of Federal funding paid to them during the fiscal year
- The pertinent Federal Award information
- Applicable A-133 audit requirements
- Deadlines for submission of the single audit reports (if applicable) to respective District departments.

Current Status

Implemented. The District Master Contract has been modified to add a Federal Award identification clause in all contracts with subrecipients who receive pass-through federal funding. The clause contains the CFDA number and name of the federal agency. Please refer to the sample contract.

(29) F-04-26 – Reporting – Inaccurate Reporting

Condition

In review of the District's annual end of period expenditure report worksheet, we noted that the District reported \$0 interest earned on the line requesting the "amount of interest earned on advances (interest earned that exceeds \$100 per year must be returned to CDE/Federal Government)."

Recommendation

We recommend that the District strengthen its Reporting review process to ensure that accurate information is reported on the Federally funded program.

Current Status

Implemented. The interest earned on the Enhancing Education Through Technology grant expenditure report was omitted in error, and a revised expenditure report has been prepared and submitted to the grantor. Attached is a copy of the revised report.

(30) Finding F-04-27 – Preparation of Schedule of Federal Awards

Condition

During our review of the District's schedule of Federal awards, we noted that there were programs that were reported with incorrect CFDA numbers, individual Federal programs grouped together and not separately identified, funds received as a sub-recipient without identification numbers assigned by pass-through entity, and programs identified as entitlements but should be included as Federal grant award programs.

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As the determination of the District's major Federal programs are based on the amounts expended and the CFDA numbers reported on the schedule of Federal awards, incorrect reporting will lead to the incorrect determination of the District's major Federal programs for the purposes of the Single Audit.

Recommendation

We recommend that the District review its existing format of its schedule of Federal expenditures to ensure that it includes the following:

- Individual programs listed instead clusters of programs (i.e. school nutrition cluster 10.553-10.555), which separately identify the individual program and CFDA number (i.e., school breakfast program 10.553, national school lunch 10.555, etc.).
- All pass-through grants should be identified individually and contain the pass-through identification numbers from the recipient agencies so that they can be properly identified and monitored by the pass-through entity.
- Direct programs should be listed by specific Federal agency (i.e., U.S. Department of Transportation, U.S. Department of Education, U.S. Department of Health and Human Services, etc.).
- CFDA numbers should be reviewed against the Grant Agreement/Award Letter/Fiscal Letter and/or CFDA website to ensure that numbers are correct and updated from any changes from the previous year.

Current Status

Implemented. The schedule of federal awards has been revised to list individual programs with their specific CFDA numbers.

(31) F-03-1 – Compliance and Internal Controls over Federal Expenditures

Condition

During our test work on the above programs, the District could not provide the auditors with the appropriate documentation to support certain expenditures in conformity with federal and District policies and procedures.

- The District could not locate five warrant packages out of the fifty samples selected for the Program Improvement grant and out of one hundred and fifty samples selected for all federal programs audited during the year ended June 30, 2003. Although a copy of the invoice was available, there was no evidence that a review was performed.
- We were unable to review evidence of the bidding process for nine expenditures out of fifty selected for test work. Four expenditures for the California Nutrition Network, one expenditure for Title I, ESEA Part A, Three expenditures for Program Improvement and one expenditure for the Reading First program.

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Recommendation

- We recommend that the District reinforce its internal control system over the accounts payable function to provide proper review and maintenance of documentation for federal program expenditures.
- The District should ensure that all procurements are subject to full and open competition in accordance with the District's policies and procedures. When circumstances prohibit following full and open competition, the District should document its criteria for the lack of full and open competition. .

Current Status

Implemented. In December 2003, the Accounts Payable Branch implemented new formal policies and procedures to safeguard copies of the warrant documents, including the requirement to maintain documents in a locked area, and assigning responsibility to specific staff for the custody and filing of warrant packages. Attached are copies of the updated procedures.

FINDINGS AND QUESTIONED COSTS RELATING TO STATE AWARDS

(32) S-04-01 Attendance Accounting – Elementary Schools – Errors in Attendance Computations

Condition

We selected a sample of 75 students for 1,260 days of attendance for the eighth school month. From our sample, we noted 6 students whose days of attendance were not accurately recorded. 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 (P2) or Annual Summary Report (P3).

- Stanford Elementary – one student was 3 days overstated, and three students were claimed for 11 days, 20 days, and 20 days, but their attendance was not included in the total days of attendance line for the specific students, only in the grand total days of attendance for the class on the teacher-certified records.
- Ascot Elementary – one student was 1 day overstated and another student's attendance for the month were not included in the total days of attendance line for the specific student but were included in grand total days of actual attendance for the class on the teacher-certified records.

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.

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(33) S-04-02 Attendance Accounting – Secondary Schools – Errors in Attendance Computations

Condition

We selected a sample of 40 students for 650 days of attendance for the eighth school month. From this sample, we noted attendance was not accurately recorded by 137 days.

- Mount Vernon Middle School – two students were over reported by one day, another student was over reported by 2 days, and there was a 28-day difference between the Monthly Statistical Report and the P3.
- Los Angeles High School – there was a 104-day net difference between the Monthly Statistical Report and the P3 summary.

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. We further recommend that the District develop some sort of access controls or authorizations over revisions to the student data used for Monthly Statistical Reports after the reports have been finalized and submitted to the District to ensure that the District is notified of any subsequent adjustments and can make any necessary adjustments as applicable to the P2 and P3 reports.

Current Status

Implemented.

(34) S-04-03 Attendance Accounting – Opportunity Schools – Errors in Attendance Computations

Condition

We selected a sample of ten students for attendance reporting for five weeks of attendance for the eighth school month, resulting in a total sample size of 250 days. From this sample, we noted one student who was over reported for days of actual attendance by two days.

We also noted the attendance summary reports for the eighth month showed two days of actual attendance more than the days reported in the final Monthly Statistical Report. Upon further investigation, it appeared that subsequent revisions were made to the student attendance database used to compile the Monthly Statistical Report, after the Monthly Statistical Report was finalized and submitted, which were not reflected in the P3. The numbers from the Monthly Statistical Report are ultimately included on the Annual Summary Report (P3).

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. We further recommend that the District develop some sort of access controls or authorizations over revisions to the student data used for monthly statistical reports after the reports have been finalized and submitted to the District to ensure that the District is notified of any subsequent adjustments and can make any necessary adjustments as applicable to the P2 and P3 reports.

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Current Status

Implemented.

(35) S-04-04 Attendance Accounting – Home Hospital School – Errors in Attendance Computations

Condition

We selected a sample of 20 classes for 15 days of attendance for the eighth school month, resulting in a total sample size of 300 days. From this sample, we noted four classes whose daily attendance was not accurately recorded.

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.

(36) S-04-05 Attendance Accounting – Independent Study – Missing Required Elements of Independent Study Agreement

Condition

We selected a sample of 50 written agreements for required elements. From this sample, we noted 1 agreement that did not contain either the manner, time frequency, and place for submitting assignments and reporting, nor the number of course credits to be earned upon completion.

Recommendation

We recommend that the School monitor the agreements enacted by the teachers with the students and parents to ensure that they are accurate and complete.

Current Status

Implemented. The School has provided in-service training to all faculty members regarding required documentation for Independent Study agreements. Attached is a memo from the principal outlining the steps taken.

(37) S-04-06 Attendance Accounting – Independent Study – Errors in Attendance Computations

Condition

We selected a sample of 50 students for three weeks of attendance for the eighth school month, resulting in a total sample of 750 days. From this sample, we noted 2 students whose work assignments were not accurately recorded for attendance hours. 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 Annual Summary Report (P3).

LOS ANGELES UNIFIED SCHOOL DISTRICT

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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 the work assignments completed by the students.

Current Status

Implemented.

(38) S-04-07 Attendance Accounting – Continuation Education – Errors in Attendance Computations

Condition

We selected a sample of ten students for Continuation Education for five weeks of attendance in the District's eighth school month, resulting in a total sample size of 250 days. From this sample, we noted 47 differences between the attendance taken by the instructor and the student's weekly attendance report used to compile the student monthly apportionment cards.

In this same sample of ten students, we noted seven additional errors in transferring the data from the weekly attendance report to the student's monthly apportionment cards, which resulted in an over reporting of 55 hours of actual attendance.

In total, actual attendance was over reported by 160 hours.

Recommendation

We recommend that the School modernize its current compilation process and implement a review process over the compilation of the Monthly Statistical Reports to ensure that the report accurately reflects the attendance by the students and hours allowed by the State.

Current Status

Implemented.

(39) S-04-08 Attendance Accounting – Continuation Education – Work Experience

Condition

We selected a sample of two students for five weeks of work experience in the District's eighth school month for a total sample of ten weeks. From this sample, we noted three weeks that one student claimed four hours of work experience, but did not attend the prerequisite of one instructional period per week of classroom work experience instruction.

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 student does not attend the required instruction.

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Current Status

Implemented.

(40) S-04-09 Attendance Accounting – Adult Education – Concurrently Enrolled Students

Condition

We selected a sample of 50 concurrently enrolled students. From this sample, we noted 6 were incorrectly classified as concurrently enrolled students, and 16 did not have evidence of a required counseling session.

Recommendation

We recommend that the District review its current policies concerning coding of concurrently enrolled students to ensure that they are properly classified. We also recommend that the School tighten its monitoring controls to ensure that counseling sessions are held and properly documented in the students' files. Finally, we recommend that the District implement a process to reflect the assessment of the courses that supplement the student's education at the adult school rather than supplant the education offered at the K-12 program in the concurrently enrolled students' files.

Current Status

Implemented.

(41) S-04-10 Attendance Accounting – Adult Education – Attendance Reporting Errors

Condition

We selected a sample of 100 students for the eighth month, resulting in 100 sample months, both exclusively adult and concurrently enrolled. From this sample, we noted attendance was under claimed for 14 of those students when we compared the Student Information System (SIS) attendance reports to the actual weekly scantrons used to take attendance. This resulted in 21 under claimed hours.

Recommendation

We recommend that the District review this School's quality control process for ensuring that the data on the scantron is properly captured by the School's scantron reading equipment.

Current Status

Implemented.

(42) S-04-11 Instructional Time and Staff Development Reform Program

Condition

We selected a sample of 321 total staff development days claimed by 14 schools. From this sample, we noted that 6 schools did not maintain supporting documentation (i.e., agenda, instructional materials, etc.) for 14 days to support that the topics covered for the staff development day were one of the six approved topics, resulting in an overstatement of staff development days totaling 81.

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Status of Prior Year Findings and Recommendations

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We selected a sample of 321 total staff development days claimed by 14 schools. From this sample, we noted that schools did not maintain supporting documentation (i.e., agenda, sign-in sheet, etc.) for 15 days that support that the length of the staff development day was at least as long as a regular instructional day, impacting 85 teachers.

In our sample of 107 teachers for 321 total staff development days claimed by 14 schools (3 days per teacher), we noted that there was no evidence (i.e., time signed in and time signed out) which supported the teacher being present for the entire staff development course for 108 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. The District revised its 2003-04 reimbursement claim from a total of \$22,830,919 to \$22,800,691. The reduction of \$30,228 represents the number of days identified by the auditors as lacking documentation.

The District has issued new procedures for documenting attendance at these staff development days. Specifically, a standardized form for staff development day attendance and other relevant documentation forms were implemented at the schools. Attached are copies of the original report and the revised report. Please note the dates of the respective reports. Also attached is Memorandum MEM-1076.1 which updates the District's requirements, including separate sign-in and sign-out sheets for Professional Development Buy-Back Days.

(43) S-04-12 Attendance Reporting – Community Day School – Attendance Reporting Errors

Condition

We selected a sample of 20 students for five weeks of attendance, resulting in total sample of 500 days in the District's eighth school month. From this sample, we noted five differences in apportionment attendance taken between the instructor's attendance register and the school's monthly statistical report system, which resulted in an understatement of six days of apportionment attendance.

In our same sample of 20 students for 5th and 6th hours of attendance in the District's eighth school month, we noted two differences between the teacher's attendance registers and the amounts reported in the school's monthly statistical report, one student attended only five periods and should have only earned ½ day credit, while the other student was recorded for a full day but the instructor recorded the student absent.

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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Fiscal Year Ended June 30, 2005

Current Status

Implemented.

(44) S-04-13 Class Size Reduction – Individual Class Teacher/Student Ratios over Maximum 20.4

Condition

We selected a sample of 24 classes tested for compliance with the class size reduction program in accordance with the sampling method dictated by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2003-04*. From this sample, we noted 3 classes claimed class size reduction funding but that the class sizes were above the maximum 20.4 average, as averaged for the days selected. We did not perform the in-depth review as recommended in the audit instructions due to time limitations.

Recommendation

We recommend that the District ensure that its classes claimed for class size reduction meet the State required average class size.

Current Status

Implemented. On the basis of a 15-day review of teacher registers, three classes were cited as having an average exceeding 20.44. For lack of time, the auditors were unable to review additional days prior to issuing their report.

The following class enrollment averages from start of school until April 15, 2004 were registered for the three classes. All met the 20.44 cut-off for K-3 CSR reimbursement.

- Ascot Elementary- Sisco, L: 20.29
- Ascot Elementary- George G: 19.88
- 28th St. Elementary- Uballe F: 20.33.

To comply with the requirement to expand their testing to an in-depth review, the auditors have selected additional classes for fiscal year 2003-04 to verify compliance with the class size reduction program. Documents have been requested for the various schools and audit procedures will be performed to verify compliance.

(45) S-04-14 Instructional Materials – Unapproved Materials Charged

Condition

In our sample of instructional materials purchased by the District, we noted one acquisition of textbooks that was not on the approved materials list and was purchased from an unapproved vendor.

Recommendation

We recommend that the District strengthen its controls over acquisitions of textbooks acquired through the State Instructional Materials program to ensure that only approved materials are charged to the program.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Current Status

Implemented.

(46) S-02-4 Internal Controls over Equipment Purchased with California Public School Library Act of 1998 Funds

Condition

- The computer hardware purchased with the California Public School Library Act of 1998 funds is not properly identified in the schools' equipment records, or on the equipment tags, to enable the equipment custodian to determine that the assets purchased with these funds are subject to additional state requirements.
- There does not exist an equipment management system with procedures to verify and ensure at periodic intervals during the course of the year, that the assets purchased with California Public School Library Act of 1998 funds are located and used in the library.
- The District does not; have a program to oversee the proper identification, tracking and use of restricted state-funded equipment.

Recommendation

The District should establish and maintain an equipment management system with records and equipment tags that clearly identify hardware purchased under the California Public School Library Act of 1998. Said equipment management system should also include procedures for verifying and ensuring at periodic intervals during the course of each year that the assets purchased with these funds are located and used in the school library.

Current Status

Partially implemented.

District Explanation If Not Implemented

The District is exploring a central and local inventory system that will require each school to report equipment purchases made with Public School Library Act funds to Media Services and the application of identification labels supplied by Media Services to the purchased equipment. Media Services will set up a schedule to monitor 10% of the schools each year on a random basis to ensure compliance.