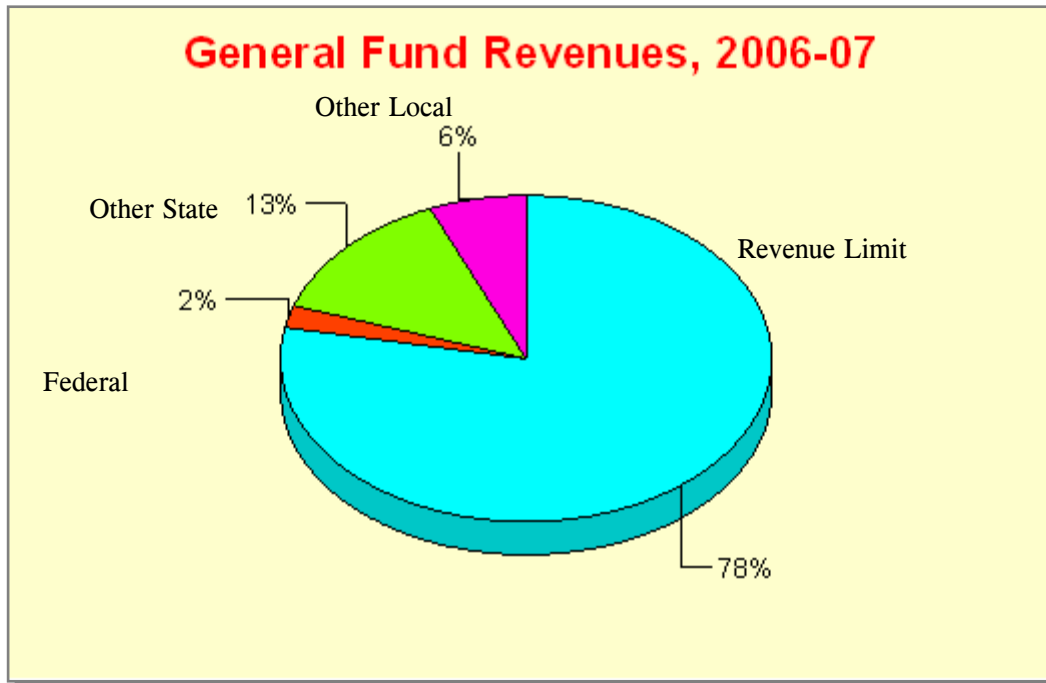


General Fund Revenues, 2006-07



General Fund Sources (In Million)

Revenue Limit	\$27.0
Federal	0.7
Other State	4.6
Other Local	2.2
Total Revenues	34.6
Beginning Balance	5.6
Total General Fund	\$40.2

78% of the District's revenues are generated from the District's Revenue Limit

Most of the District's General Fund revenue is generated from a combination of state aid and local property taxes. This revenue is called revenue limit sources. Public education—unlike any other public agency—receives most of its revenue based on the population it serves.

The second biggest source of revenue is state categorical income that must be spent for selected state-determined programs. The two largest categorical programs are Special Education services, a restricted program, and K-3 Class-Size Reduction, an unrestricted program.

Federal income is a small portion of the entire District income, but it is growing as new federal commitments are added. Again, most of the federal income is restricted since it must be expended for purposes that are determined by the grantor, not the local Board of Education.

The District's total available resources in the budget year include a "beginning balance," which reflects an unexpended carryover balance from the prior fiscal year.

Reflects information as of October, 2006

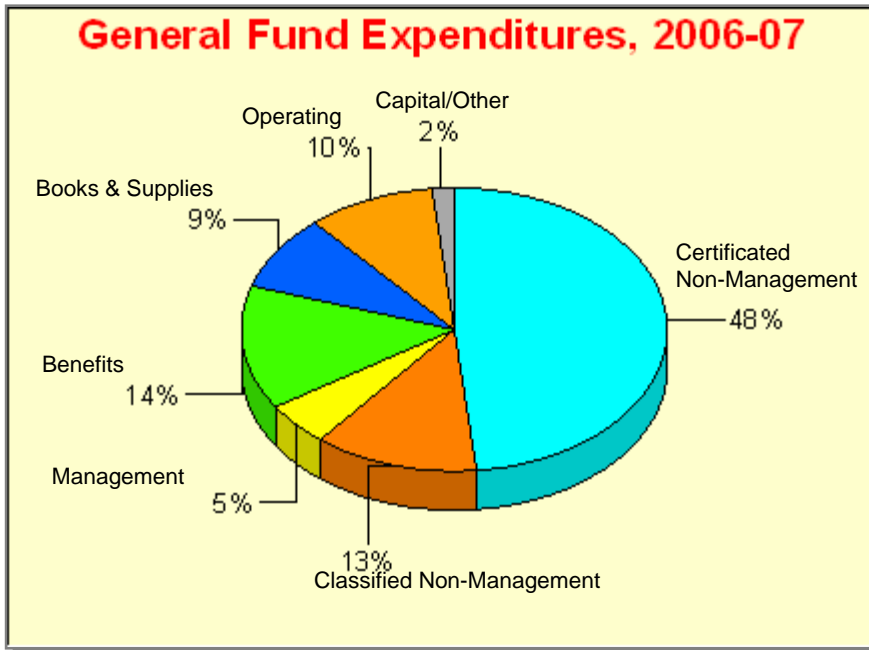
General Fund Expenditures, 2006-07

It takes people to teach students and 80% of the District's total expenditures are committed to the employees of the District

Most of the expenditures of the District are committed to the salaries and benefits for employees of the District. It takes people to teach students, and in Del Mar Union School District, 80% of the District's budgeted expenditures are for the services of District employees.

Employee salaries are divided into three separate line items--certificated, management, and classified employees. Certificated employees include teachers, nurses, psychologists, and others who provide services that require credentials from the state of California. Management employees include principals, vice principals, instructional leaders, classified management personnel, and district superintendents.

Classified employees include all of the support personnel in the District, including secretaries, accountants, custodial personnel, maintenance, and instructional aides.

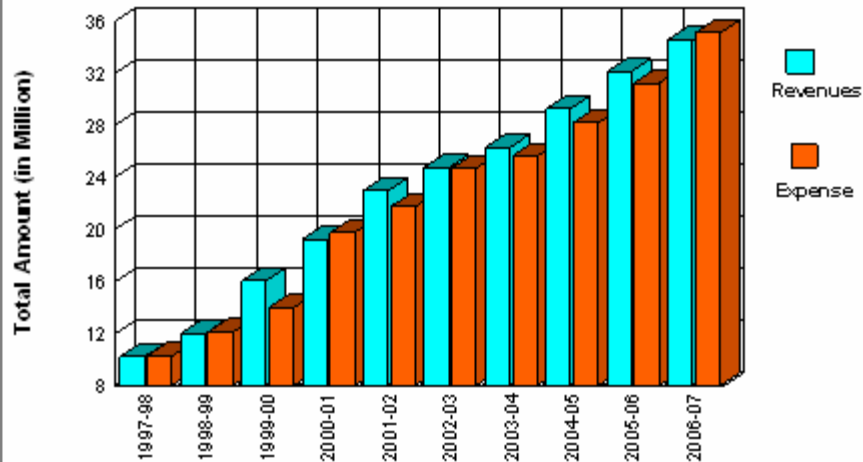


Reflects information as of October, 2006

General Fund Expenditures (In Millions)	
Certificated Non-Management Salaries	\$16.9
Classified Non-Management Salaries	4.4
Management and Supervisor Salaries	1.7
Employee Benefits	5.0
Books and Supplies	3.0
Operating	3.4
Capital/Other	0.6
Total Expenditures	35.1
Ending Balance	6.1
Total General Fund	\$41.2

General Fund Revenues and Expenses, 1997-98 to 2006-07

Revenues and Expenses, 1997-98 to 2006-07

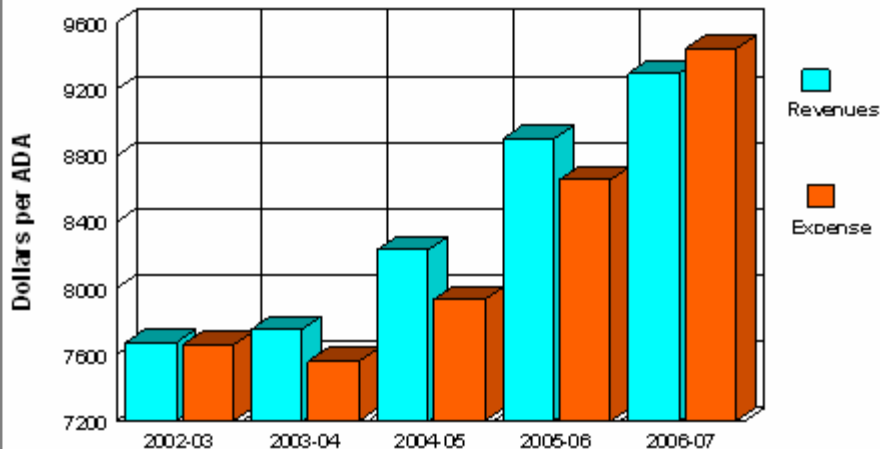


The district budget has been squeezed in recent years even more than in the early 1990s

The early 1990s were marked by very few or even zero cost-of-living adjustments for public schools. Those difficult recession years were a real challenge for public education. Districts around the state cut back repeatedly during the years from 1991 through 1994.

As measured by historical patterns, public education did very well in the latter part of the 1990s. The state's fast fiscal recovery and the boom in California's collection of income taxes led to significant additional education funding starting in 1995-96. The latter years of the 1990s included new programs for class-size reduction (kindergarten through grade three), dramatic expansion of the accountability measurements starting in 1999, and full funding for revenue limits in 2000-01, which funded the deficit.

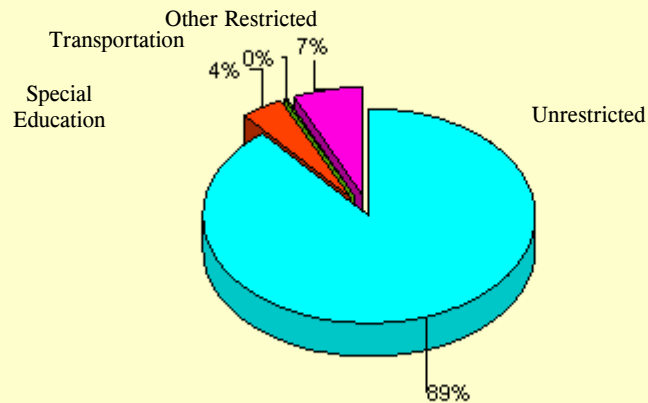
Revenues and Expenses per ADA, 2002-03 to 2006-07



The start of the new century was plagued by another state recession and once again the state has had to retrench--with major reductions for K-12 education. An unprecedented mid-year cut in state funding for public education marred the budget of 2002-03. In 2003-04, public education had, for only the second time in Revenue Limit history, a reduction in the Revenue Limit of 1.2%. In 2004-05, the state provided a cost-of-living adjustment of 2.41% and a partial restoration of the reduction in revenue limit of the prior year. In 2005-06, the state adopted a 4.23% cost-of-living increase, and in 2006-07, the Governor's May Revise proposes a 5.92% cost-of-living increase.

Restricted and Unrestricted District Revenues and Expenses, 2006-07

Unrestricted and Restricted Revenues, 2006-07

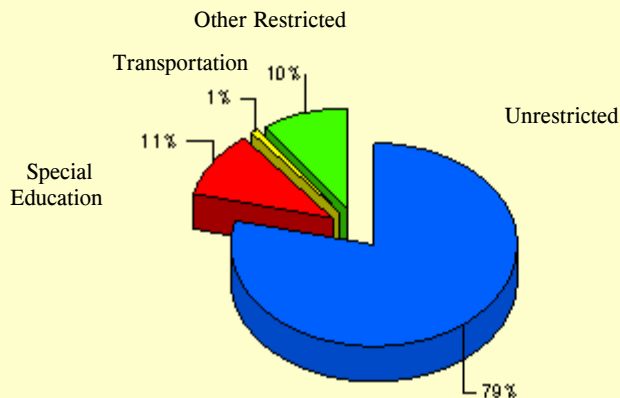


89% of the District's income can be expended as determined by the local agency

A significant portion of California school district income is restricted income and, as such, can only be expended for selected purposes as determined by the granting agency--usually higher levels of government. The balance of the District income is called unrestricted since it can be expended as determined by the local agency for general educational priorities. On average, in 2006-07, California school districts will receive about two-thirds of their income as unrestricted.

The biggest restricted programs in California are Special Education, K-3 Class Size Reduction, and Home-to-School Transportation. Local agencies are obligated, for each of these programs, to expend the income for selected program purposes and in some cases for very micro-managed expenditures as determined by California or federal law.

Unrestricted and Restricted Expenses, 2006-07



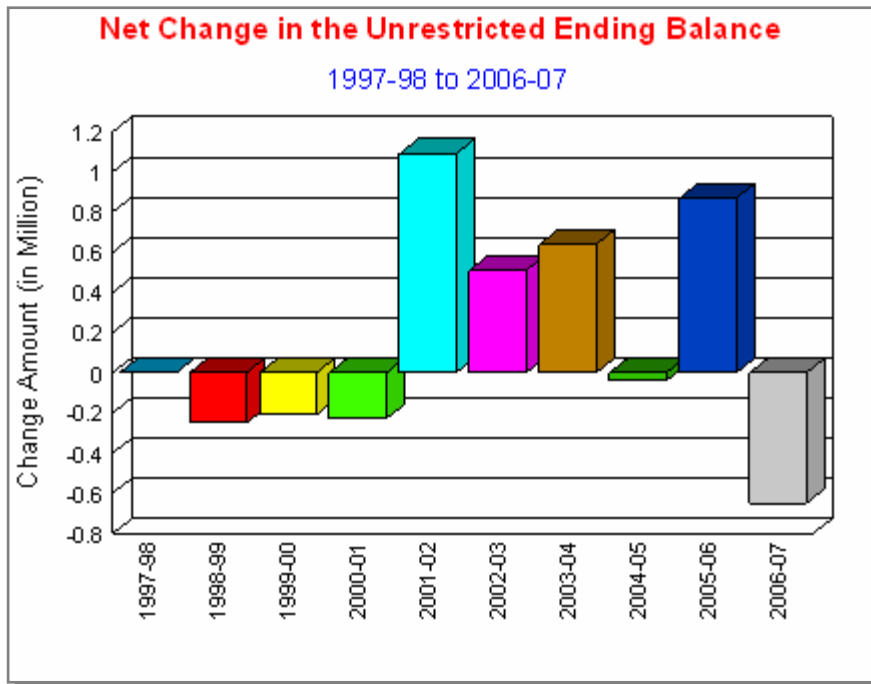
For Special Education, Del Mar Union School District expends \$3,762,811 to meet program obligations and state and federal law. State and federal Special Education income is significantly less than the obligations of the program. Therefore, the District must use unrestricted or general-purpose income to address the full obligations of Special Education. The difference between the restricted income and the expenditures in Special Education is described as "encroachment," indicating that the expenditures "encroach" on general purpose revenues.

Home-to-School Transportation is another encroaching program on the District's general purpose revenues in the amount of \$186,052.

Reflects information as of October, 2006

Net Change in the Unrestricted Ending Balance, 1997-98 to 2006-07

Net change in the unrestricted balance over the course of years can provide an image of District fiscal strengths and/or weakness



Reflects information as of October, 2006

Examining a school district's unrestricted Net Ending Balance over a series of years can provide a good overview of a school district's fiscal health and stability. While examining the current year's unrestricted balance is an essential part of good fiscal management, examining the balance over a course of years can provide an additional image of District fiscal strengths or weaknesses.

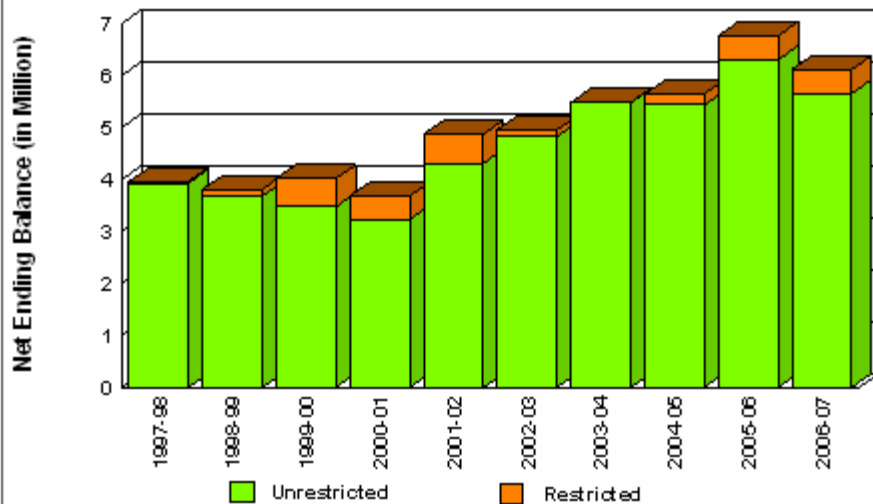
The "unrestricted" Net Ending Balance--the year end balance that reflects the income that can be expended as the local agency determines--is the most-watched single characteristic of a district's fiscal health. Districts are required to have minimum balances available to meet potential emergency needs. Assuring that adequate balances are available at the end of the year is an important part of District fiscal management.

The chart reflects Del Mar Union School District's net change in the Unrestricted Ending Balance. A positive number, one with the bar above the centerline, reflects that the District had more unrestricted income than expense in that particular fiscal year. A deficit amount, reflected with the bar below the centerline, indicates the district had more unrestricted expenditures than income in that particular fiscal year.

A net change in the Ending Fund Balance, either positive or negative, is of concern if it continues over a number of years. A consistent increase in the Ending Fund Balance is appropriate if the District is saving for future fiscal needs. A consistent, consciously applied deficit on a budget may be appropriate to reduce district reserves. But, on the other hand, multi-year positive or negative numbers need to be especially examined to ensure that the District is on an prudent fiscal path and the District is consciously addressing fiscal issues.

District Reserves and Net Ending Balances, 1997-98 to 2006-07

District Reserves and Net Ending Balance



A school district's Net Ending Balance is a district's reserve account to fund one-time expenses or unforeseen events.

Revenues that have not been expended during a budget year are carried over into the subsequent year and identified as the District's "Net Ending Balance." In most cases, this is the only reserve account that a school district has for general operational purposes. The Net Ending Balance of one year becomes the Net Beginning Balance of the subsequent year.

Included within the projected Net Ending Balance is a "Reserve for Economic Uncertainties," which is a minimum balance that the state of California requires to be retained to cover unforeseen shortfalls in revenues or higher-than-expected expenditures. The state's minimum "Reserve for Economic Uncertainties" for Del Mar Union School District is 3% of the total General Fund expenditures. Many districts have reserves that are higher than the minimum state requirement, due to the significant fluctuations in public education revenues and/or due to local circumstances and risk factors.

Also included in the Net Ending Balance are restricted carryover balances that originated from sources that can only be used for selected purposes. These revenues can only be expended for the purposes determined by the grantor, and the balances in these accounts carry the same restrictions as the originating income. Thus, a Net Ending Balance is composed of two types of accounts--those that are "restricted" that can be used for selected purposes only and those that are "unrestricted" that can be expended by decisions of the local agency.

Net Ending Balance Components (In Thousand)

	2004-05	2005-06 (act)	2006-07 (proj)
Revolving Cash	\$20	\$20	\$20
Stores	0	0	0
Prepaid Expense	0	0	0
Restricted Program Balances	212	458	459
Reserve for Economic Uncertainties	876	934	1,053
Reserves Restricted by the Governing Board	890	1,045	1,427
Unallocated Balance	3,641	4,306	3,151

Reflects information as of October, 2006

Assumptions for the 2006-07 Budget Development

During the months of May and June each year, the District finalizes its budget for the coming year. In order to project the budget, a series of assumptions about the conditions of the District must be determined. These assumptions are then inserted into state and District formulas in order to determine the final budget for the next year.

The accuracy of the District's budget projection for the next year is only as good as the assumptions that are used in developing the budget. If the assumptions are wrong, so too will be the budget. As a consequence, the assumptions--at least the primary ones--have to be carefully considered in evaluating the accuracy of next year's income and expense. Often, the assumptions for budget development are revised several times during a fiscal year.

Since it is impossible to accurately predict all of the assumptions that are needed in budget development, Del Mar Union School District updates its budget--and the assumptions--three times after the original budget is adopted. The assumptions are updated with a revision that occurs within 45 days after the adoption of the State Budget and with two interim reports that are delivered to the Board of Education in January and March of each fiscal year.

Financial Assumptions for 2006-07 Budget Development

	%	Total
ADA percentage change over prior year, and estimated P-2 ADA for 2006-07	3.00	3,717
Revenue Limit COLA adjustment by percentage and dollars	5.92	\$1,096,515
COLA adjustment for state categorical programs	5.92	
Reduction in state revenue limit deficit	0.89	
District's estimated Unrestricted Beginning Balance		\$4,306,354
Certificated payroll increases due to the step and column movement	2.40	\$408,556
Health and Welfare cost increase	0.00	\$0
Others:		

A general salary increase of 5.00%, costing \$1,236,338 has been included in the proposed budget.

The District's budget projection is only as good as the assumptions that are used in developing the District's revenues and expenses

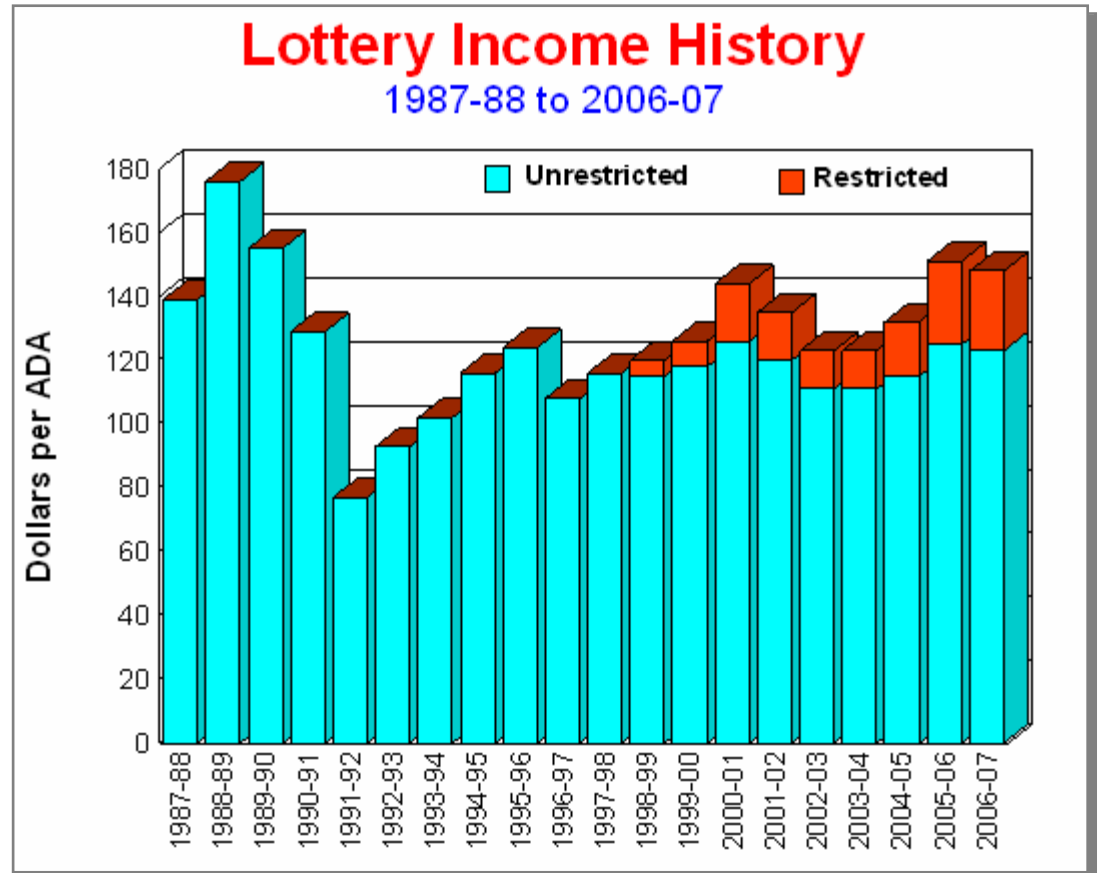
Lottery Income and its History

The California State Lottery is projected to yield \$457,191, or approximately 1%, of the District's income in 2006-07. While the income is welcome, it will yield only a small portion of the total income needed to support the District's educational program. The income in the budget year, as an example, would be sufficient to buy three textbooks per student, to buy four computers per classroom, or pay for the energy costs for one year.

Lottery income is not a stable source of income for the district, but instead has ranged from a low of \$77 per ADA in 1991-92 to a high of \$176 per ADA in 1988-89. Since the income is not consistent, the expenditures have also varied widely.

Since 1997-98, school districts have been required to use 50% of the growth in Lottery allocations for the purchase of instructional materials. In 2006-07, it is projected that California school districts will receive \$123 per ADA in unrestricted funds and \$25 per ADA restricted for the instructional materials purchase.

Lottery income is important,
but it is only 1% of
the District's total income



Current and budgeted years are estimated and projected

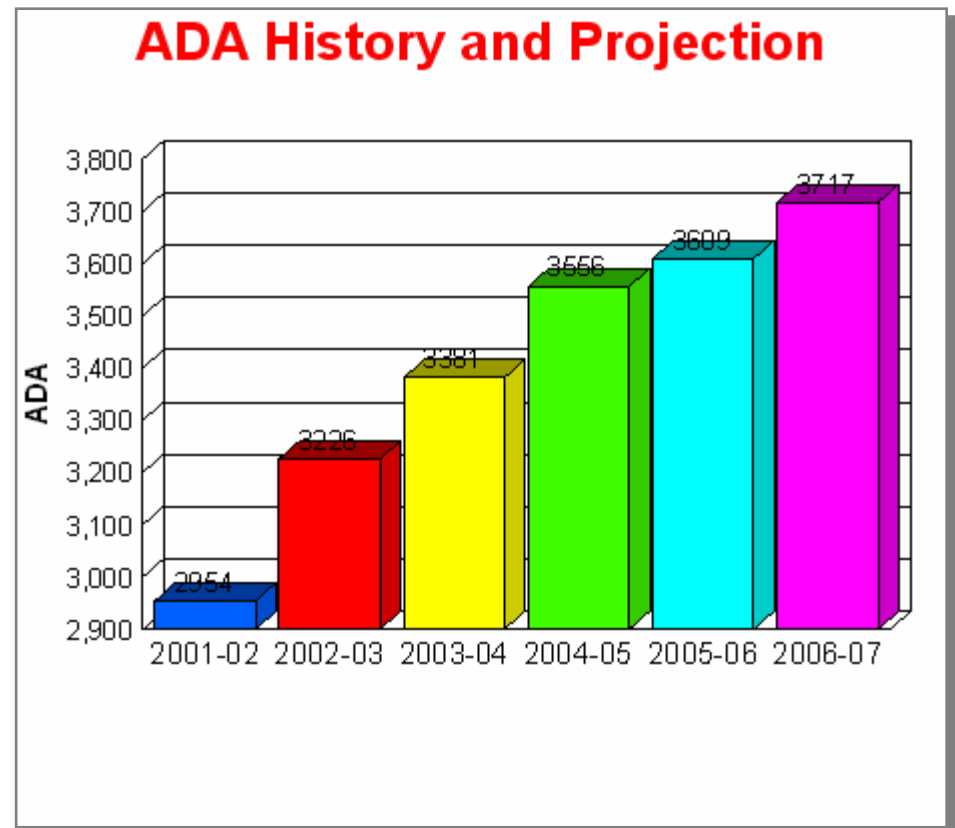
Attendance History and Projections for 2006-07

The most significant characteristic for determining District income is the calculation of the average number of students that are in school and in attendance on a daily basis. This average daily attendance or ADA is multiplied by the District's revenue limit per ADA to determine the total Revenue Limit income for the District. Del Mar Union School District has projected that the ADA for 2006-07 is 3,717, which is multiplied by the District's Revenue Limit of \$0.00 to generate the District's total Revenue Limit income in the new fiscal year.

Since ADA is such an important part of the District's income base, the projection of ADA for this next fiscal year is an important part in projecting the District's income. Even small fluctuations in the District's ADA can mean tens of thousands of dollars as a gain or loss of income. District attendance records are monitored monthly and ADA is updated throughout the year to ensure that the projected revenue limit income matches the District's budgeted or revised projections.

Public schools are the only agencies that receive income based on the population they serve. Cities or counties, as an example, do not have either increases or decreases in their revenue based on the number of citizens in their community. Public schools, however, receive most of their income based on attendance and if a student misses even one day in Del Mar Union School District, the District loses approximately \$0. The state does not pay the District for enrollment--just attendance--so all of the costs of setting up the instructional program will be a loss unless the student attends every day.

District revenues are generated based on actual attendance and not just the enrollment of students



Reflects information as of October, 2006

Dollar Change per ADA, Unrestricted Expenditures, 2005-06 to 2006-07

Comparing expenses per ADA by budget area shows the District's priorities

Developing a budget for 2006-07 is especially challenging, due to the decline in revenue that is projected per ADA (the average daily attendance of District students). Unfortunately, the District must cover major cost increases and still accommodate an insecure revenue stream.

The District, by necessity, has had to evaluate expenditure changes per ADA and then compare those costs to the change in income per ADA. This analysis has been especially important in the District's review of unrestricted expenditures--those expenses that are determined by the Governing Board and not categorically regulated by higher levels of government.

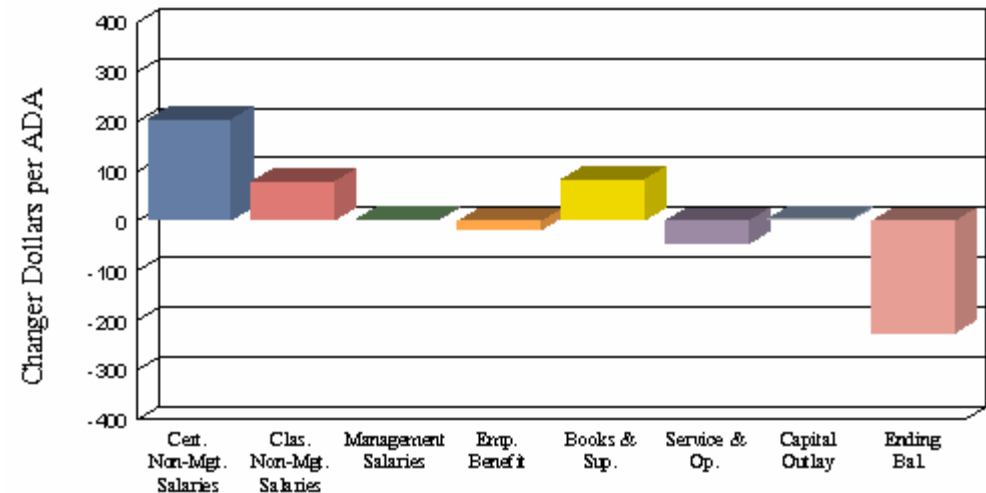
The graphical display is calculated by dividing the District's unrestricted expenditures for each of the primary object codes by ADA for each of the applicable years. The dollar difference in expense per ADA can then be compared to the District's unrestricted revenue per ADA. This graphical representation can be valuable in understanding district priorities and how the District is allocating its income in the budget year.

Revenue Limit income in Del Mar Union School District is projected to increase in 2006-07 by \$1,096,515, or an estimated \$295.00 per ADA.

Reflects information as of October, 2006

	Dollar Expense per ADA		
	2005-06	2006-07	Dollar Change
Certificated Non-Mgt. Salaries	\$3,785	\$3,991	\$206
Classified Non-Mgt. Salaries	663	743	80
Mgt. and Supvr. Salaries	400	402	2
Employee Benefits	1,157	1,138	-19
Books and Supplies	384	469	85
Operating	686	639	-47
Capital/Other	42	47	5
Total Expense	7,117	7,429	312
Ending Balance	1,746	1,520	-226
Total General Fund	\$8,863	\$8,949	\$86

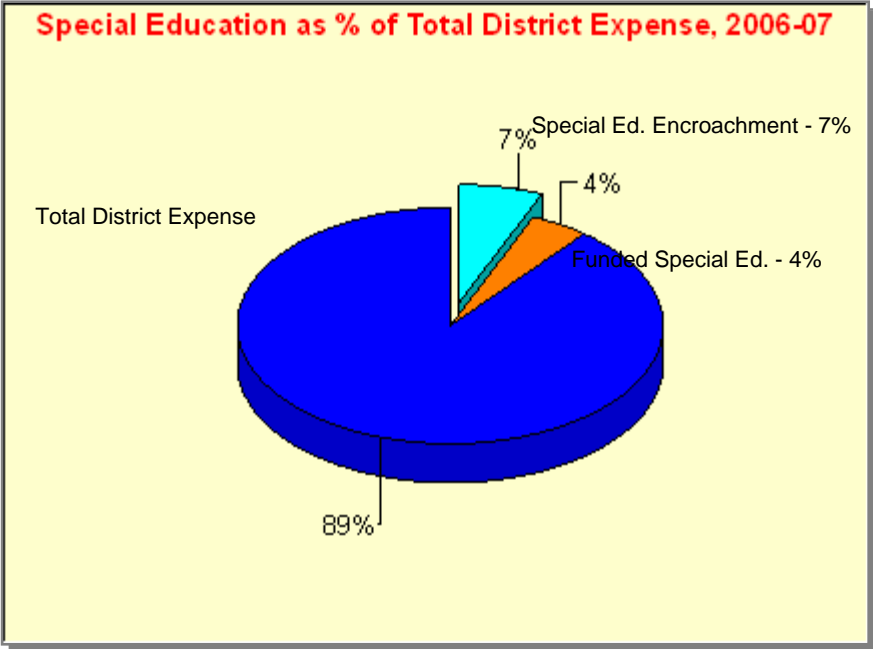
**Dollar Change per ADA, Unrestricted Expenditures,
2005-06 to 2006-07**



Special Education Program Costs, 2006-07

Special education costs
are greater than the
dedicated income

Special Education Costs, 2006-07	
Special Education Expense	\$3,762,811
Less: Funded Special Education	\$1,476,646
<hr/> Special Education Encroachment	<hr/> \$2,286,165



School districts throughout the state face a continuing challenge in funding the costs for serving special education students. Del Mar Union School District is proud of the special education support provided to our students, but the District is also faced with mounting increases in the difference between the federal and state government's funding and the mandated costs for these vital student services.

Unfortunately, the federal government has not provided the funding that was envisioned when the laws mandating programs for special education students were adopted. The nation's capital community committed to providing funding for 40% of the costs for special education, but has never been able to match much more than about a 17% funding level.

This shortfall in dedicated funding has led to very significant encroachment into the District's Unrestricted General Fund. Encroachment--the difference between Special Education income and expense--has forced the District into making cuts in other District programs in order to make up for the funding shortfall by federal and state governments. During 2006-07, it is estimated that Del Mar Union School District will contribute \$2,286,165 from the District's Unrestricted General Fund to cover the encroachment costs for Special Education.

It is disappointing that a planned pass through of federal dollars to support Special Education was again siphoned off at the state level for 2006-07. Approximately \$100 million of new federal funds that were destined to support local agency costs for Special Education have been used to fund mental health services previously paid by County government. As a consequence, the encroachment costs for these important programs continue to grow as the District develops its budget for this fiscal year.

Reflects information as of October, 2006

District's Revenues and Expenses vs. Other Districts, 2004-05

Comparative data reflect Del Mar Union School District high commitment to employees

Californians value the ability to determine education delivery at the local level and, as a consequence, our state has more than 1,000 individual school districts. Per-ADA revenues by local agency vary widely due to the differences in federal or state funding formulas and local community commitments. Additionally, the expenses of local agencies can also vary widely due to local needs, bargained contracts, and local customs. Despite the wide difference in local agency finances, however, comparative review can be helpful in analyzing the decisions of local education agencies.

Local agency actual income and expense statistics are available for all school agencies for the 2004-05 fiscal year. The tables to the right compare Del Mar Union School District to on a per-ADA average income and expense basis for San Diego County Elementary Districts (2004-05). The statewide average information in fiscal year 2004-05 is the most recent available from the California Department of Education.

2004-05 Revenue Comparison (Dollar per ADA and as %)

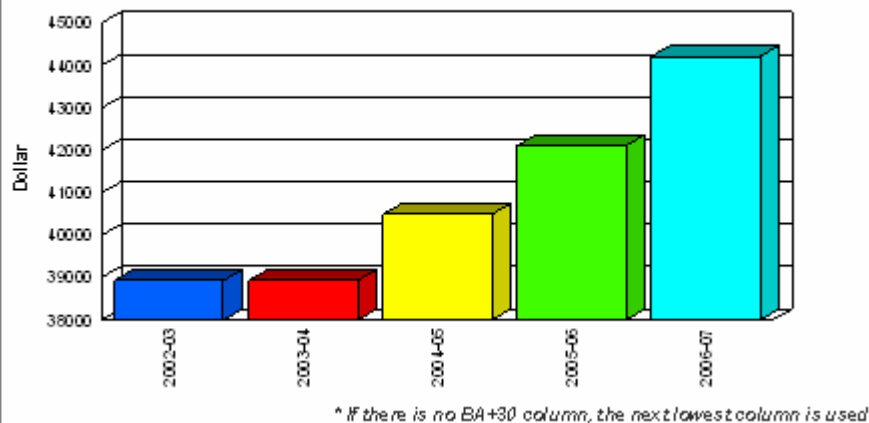
	District	% of District Revenue	San Diego County Elementary Districts (2004-05)	Comparative Districts %
Revenue Limit Source	\$6,113	74	\$5,109	65
Federal Revenue	183	2	751	10
Other State Revenue	928	11	1,158	15
Local and Other Revenue	1,008	12	797	10
Total	\$8,232	100	\$7,815	100

2004-05 Expenditure Comparison (Dollar per ADA and as %)

	District	% of District Expense	San Diego County Elementary Districts (2004-05)	Comparative Districts %
Certificated Non-Mgt. Salaries	\$3,867	49	\$3,621	47
Classified Non-Mgt. Salaries	913	12	1,095	14
Management and Supvr. Salaries	395	5	391	5
Employee Benefits	1,368	17	1,376	18
Books and Supplies	505	6	396	5
Operating	822	10	646	8
Capital/Other	16	0	164	2
Total Expense	7,886	100	7,689	100
Ending Balance	1,586	20	1,065	14
Total General Fund	\$9,472	120	\$8,754	114

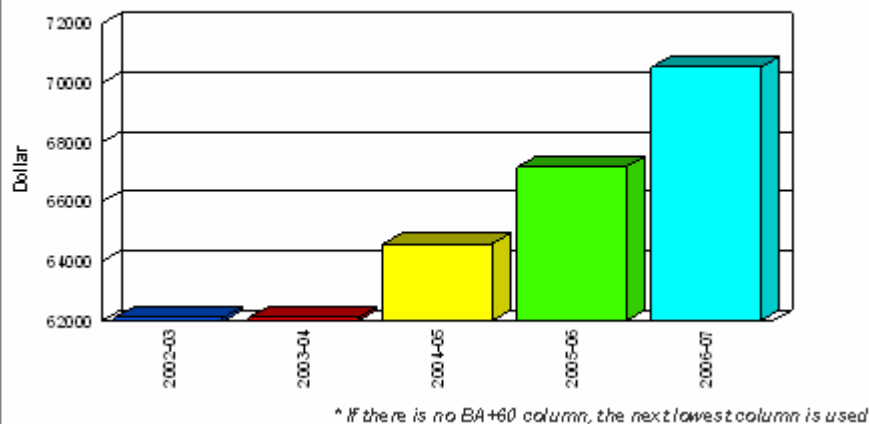
Certificated Salary Growth, 2002-03 to 2006-07

Salary at BA+30*, Step 1



Teacher salaries are paid based on two employee qualifications: number of years of service (steps) and number of graduate units completed after the Bachelor's degree (column).

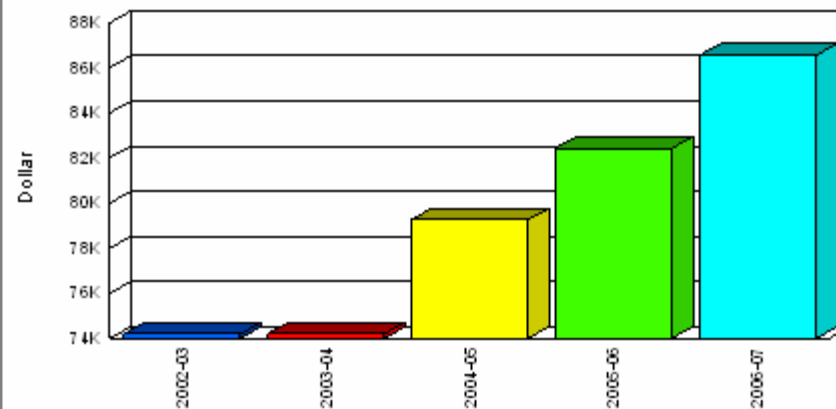
Salary at BA+60*, Step 10



The District's salary growth over the past three years shows the high commitment of the District to its classroom teachers

Maximum Salary

BA + 60 at Step 30



The salary numbers that are shown reflect three commonly used benchmarks for measurement of teacher salaries exclusive of salary-related costs, such as retirement contributions and health and welfare benefits. The District and its unions have concluded negotiations on the salaries for 2005-06, which includes a 5. % increase.

Reflects information as of October, 2006

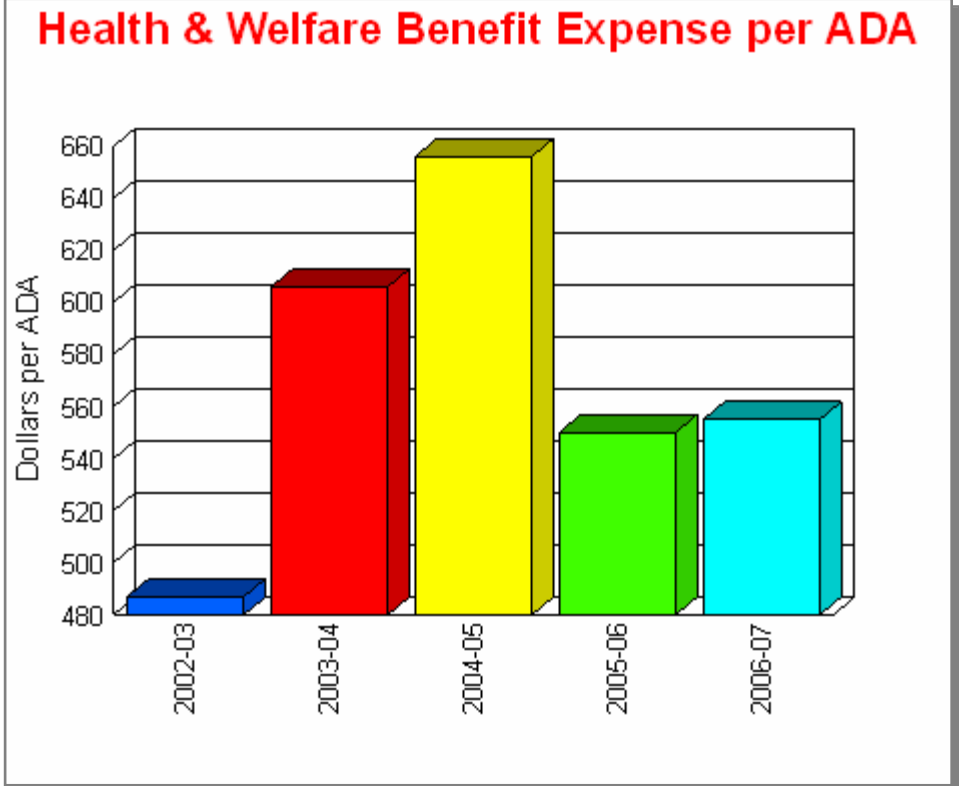
Health and Welfare Benefit Expense, 2002-03 to 2006-07

Public education is not immune to the cost escalation in health benefit expenditures. Continuing to fund these benefits has become increasingly challenging. The cost increase per ADA for health benefits is projected to absorb a high percentage of the District's new revenues.

As part of an employee's compensation, the District contributes to the premium costs for health, dental, vision, and life insurance benefits for its employees. Employees must generally be in full-time employment in order to receive the maximum District contribution, although part-time employees can participate in the plan with partial District support.

The benefit plans and the dollar amounts that are contributed by the District per employee are determined by the collective bargaining agreement reached with the District's bargaining units. The District considers the health benefit plan to be part of an employee's total compensation, and as the costs of district-funded benefits increase, the ability of the District to provide salary increases is squeezed.

The District has budgeted \$2,062,192 for employee health and welfare benefits during the coming year.



Reflects information as of October, 2006