

**DEL MAR UNION SCHOOL DISTRICT  
COUNTY OF SAN DIEGO  
DEL MAR, CALIFORNIA**

**AUDIT REPORT**

**JUNE 30, 2006**

**WILKINSON HADLEY & CO, LLP  
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*Introductory Section*

Del Mar Union School District  
 Audit Report  
 For The Year Ended June 30, 2006

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***Financial Section***

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**Independent Auditor's Report on Financial Statements**

Board of Trustees  
Del Mar Union School District  
Del Mar, California 92014

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Del Mar Union School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Del Mar Union School 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Del Mar Union School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 November 1, 2006, on our consideration of Del Mar Union School 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents 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 performed for the purpose of forming opinions on the financial statements which collectively comprise the Del Mar Union School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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.

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
November 1, 2006

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

This section of the Del Mar Union School District's annual financial reports presents the Management Discussion and Analysis of the District's financial performance during the fiscal year that ended June 30, 2006. It is intended to provide a clear and concise analysis of the activities, financial results, and financial position during the fiscal year, and is a required element of the reporting model established by the Governmental Accounting Standards Boards (GASB) in Statement Number 34. This Management Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements, which immediately follow this section.

### **USING THESE FINANCIAL STATEMENTS**

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Del Mar Union School District as a complex financial entity. The Del Mar Union School District operates governmental, business-type, and internal service activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole district, presenting both an aggregate view of the district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2006 are as follows:

- Total net assets (including Business Type Activities) for the District are \$101,943,660.
- Outstanding Capital Lease-Purchase Debt decreased from \$661,590 to \$521,329 during the 2005-2006 fiscal year.
- The District student enrollment increased to 3,374.
- Property tax revenue increased by 13% over the 2004-2005 fiscal year.
- The District opened its seventh school, Sycamore Ridge.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – Management Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include different kinds of statements that present both a view of the District as a whole, and individual fund statements that focus on various parts of the district's operations in more detail. The financial statements also include notes that explain some of the information presented in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY**

**Statement of Net Assets and Statement of Activities**

While this document contains several funds used by the district to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005-2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

These two statements report the District's net assets and changes in those assets. This change is important because it tells the reader whether, for the District as a whole, the financial position of the district has improved or diminished. In addition, non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities must be considered.

In the Statement of Net Assets and the Statement of Activities, the District's activities are divided into two categories; governmental activities and business type activities. All of the District's programs and services are reported here including instruction, support services, as well as operation and maintenance of facilities. Under the governmental activities column is where most of the District's basic services are included, such as regular and special education instruction, transportation, and administration. Property taxes and state categorical formulas finance most of these activities. Under the Business-type activities column is where the District's Childcare Programs and Children's Creative Workshop activities are included. Tuition payments finance these activities.

**REPORTING THE DISTRICT'S MOST SIGNIFICANT INDIVIDUAL FUNDS**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

The District has three kinds of funds which are explained below. Later in this report a chart is provided that shows all of the district funds, balances, and fund types.

**Governmental funds**-Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

The District maintains eight individual governmental funds. Three of these funds are considered major funds: the General Fund, the Capital Project Fund for Blended Component Unit, and the Cafeteria Fund. The other five governmental funds are Debt Service, Deferred Maintenance, Special Reserve, Capital Facilities, and Special Reserve for Capital Outlay.

**Major funds** are those whose revenues, expenses, assets, or liabilities are at least 10 percent of the total for their fund category or type (governmental or enterprise) and at least 5 percent of the aggregate amount for all governmental and enterprise funds.

**Proprietary funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. Enterprise funds or internal service funds are the two types of proprietary funds. The District does operate an enterprise fund which is where we account for the activities related to all of the Childcare programs. During the 2005-06 school year all of the Childcare programs were reported in this enterprise fund.

**Enterprise funds** are operated in a manner similar to private business where the determination of revenues earned, costs incurred and net income is necessary for management accountability. The District uses one enterprise fund to account for business activities of all of the Childcare programs. During the 2005-06 school year all of the Childcare programs were reported in this enterprise fund.

**Fiduciary funds** – In a fiduciary fund, the District is the trustee, or fiduciary, for assets that belong to others, such as the Foundation Trust Fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Assets**

The district's net assets were \$ 101,177,006 as of June 30, 2006. The Statement of Net Assets (see Table A-1 below) provides a perspective of the District's net assets as a whole. All of the data is from the District's governmental activities.

	<u>2004-2005</u>	<u>2005-2006</u>	<u>Variance</u>
<b>Assets</b>			
Cash	\$21,428,043	\$21,125,018	\$-303,025
Receivables	1,507,579	1,479,104	-28,475
Due from (to) other funds	77,951	76,800	-1,151
Prepaid expenses	1,082,869	913,637	169,232
<b>Capital assets:</b>			
Land	32,476,189	34,889,107	2,412,918
Site improvements	1,204,314	1,894,608	690,294
Buildings	55,992,458	79,359,023	23,366,565
Equipment	2,171,633	2,462,201	290,568
Work in progress	22,765,090	0	-22,765,090
Less accum. depr.	-10,143,801	-13,609,901	3,466,100
Total assets	<u>128,562,325</u>	<u>128,589,597</u>	<u>27,272</u>
<b>Liabilities</b>			
Accounts payable & liabilities	1,353,093	898,934	-454,159
Current loans	3,225,000	3,500,000	275,000
Deferred revenue	126,938	123,474	-3,464
Long-term liabilities	23,423,272	22,890,183	-533,089
<i>Due within one year</i>	712,485	517,195	-195,290
<i>Due in more than one year</i>	22,710,787	22,372,988	-337,799
Total Liabilities	<u>28,128,303</u>	<u>27,412,591</u>	<u>715,712</u>
<b>Net Assets</b>			
Invested in capital assets	81,229,293	82,104,855	875,562
<b>Restricted:</b>			
Capital projects	9,817,493	10,173,821	356,328
Debt service	9,387,236		-9,387,236
Other purposes (expendable)		2,763,508	2,763,508
Other purposes (nonexpendable)		1,392,680	1,392,680
Unrestricted		4,742,142	4,742,142
Total Net Assets	<u>\$100,434,022</u>	<u>\$101,177,006</u>	<u>742,984</u>

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**Governmental Activities**

Revenue in the Governmental Funds is divided into general revenue, which funds the basic on-going instructional programs and related support services, and program revenue, which funds specific program activities that support the children enrolled in Del Mar schools. Revenues from the District's governmental activities were \$36,794,978 (see Table A-2) while expenditures were \$36,890,052 (see Table A-3).

**Table A-2  
Revenue for Governmental Activities**

	2004-2005	2005-2006
Program Revenue	\$23,297,826	\$3,964,841
General Revenues	29,734,439	32,830,137
	\$53,032,265	\$36,794,978

The primary sources of general revenue are state revenue and local property taxes and represent approximately 89% of general revenues. The remaining 11% of general revenues consists of interest earnings, other agency transfers and local income. The primary sources of program revenues are the State of California and the Federal Government which fund many of the programs operated by the district. The large variance from 2004-2005 to 2005-2006 is a result of the State School Building Fund revenues and bond proceeds for the construction of Sycamore Ridge School.

The table below presents the cost of each of the District's largest functions by expenditure total.

**Table A-3  
Expenditure For Government Activities**

	2004-2005	2005-2006
Classroom Instruction	\$21,510,226	\$23,674,269
Instructional Services	3,001,918	3,409,197
Pupil Services	910,951	1,488,179
General Administration	1,513,134	1,642,893
Plant Services	2,566,762	3,050,505
Other Services & Activities	11,194,230	1,530,638
	\$40,697,221	\$36,890,052

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance as a whole is reflected in the District's governmental funds. As the District completed the year, the governmental funds reported a combined fund balance of over \$19.3 million. Below in Table A-4 is a list of all the various District funds balances at the end of the 2004-2005 and 2005-2006 fiscal years. The variance between years is also listed. The fund types are described in the Fund Financial Statements section of this report.

**Table A-4  
Ending Fund Balances By Type  
Fiscal Years 2004-2005 and 2005-2006**

	2004-2005	2005-2006	Variance
General Fund	\$5,639,025	\$6,764,408	\$1,125,383
Cafeteria	20,009	97,745	77,736
Deferred Maintenance	239,033	356,919	117,886
Special Reserve	1,142,899	1,182,580	39,681
Capital Facilities	94,653	62,295	-32,358
Special Reserve for Capital Projects	1,552,944	1,537,250	-15,694
Community Facilities District 95-1, 99-1	10,041,159	8,574,276	-1,466,883
<b>Total Governmental Funds</b>	<b>\$18,729,722</b>	<b>\$18,575,473</b>	<b>-154,249</b>
Other Enterprise	1,236,703	766,654	-470,049
<b>Total Proprietary Funds</b>	<b>1,236,703</b>	<b>766,654</b>	<b>-470,049</b>
Foundation Trust	40,595	41,813	1,218
<b>Total Fiduciary Funds</b>	<b>40,595</b>	<b>41,813</b>	<b>1,218</b>
<b>Total All Funds</b>	<b>\$20,007,020</b>	<b>\$19,383,940</b>	<b>\$-623,080</b>

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**Long-Term Debt**

At year end, the District had over \$22.8 million in certificates of participation, capital leases payable, lease revenue bonds, and other long-term debt outstanding. More detail about the District's long-term debt is detailed in Table A-5 below. Additional information regarding the long-term liabilities is presented in the notes to the financial statements.

**Table A-6  
Outstanding Long-Term Debt**

	2004-2005	2005-2006
Certification of Participation	\$11,955,000	\$11,700,000
Lease Revenue Bonds Payable	10,620,000	10,485,000
Capital Leases Payable	661,590	521,329
Compensated Absences Payable	186,682	183,854
Total	\$23,423,272	\$22,890,183

**CFD 95-1**

In July 1999, the Del Mar Community Facilities District (CFD) 95-1 issued \$12,660,000 of Certificates of Participation (COP's). Proceeds from the sale of the COP's were used to acquire the land and construct the Torrey Hills School. The COP's were dated July 8, 1999 and repayment of the principal is payable September 1 of each year. The first payment was made on September 1, 2002 with an interest rate that varies from 3.9% to 5.25%. Interest is payable on March 1 and September 1 of each year. Interest payments began in March 2000. The certificates mature through 2029.

**CFD 99-1**

Pursuant to the formation resolution and the bond authorization resolution which was approved by the Board of Trustees on May 12, 1999. An election was held on September 28, 1999 which allowed the Community Facilities District 99-1 to finance the cost of public facilities by incurring bonded indebtedness. More than two-thirds of the votes cast were in favor of the "Series 2003 Special Tax Bonds" maturing on September 1, 2029 and September 1, 2038. In October of 2003 the Del Mar Community Facilities District 99-1 issued \$10,620,000 in Lease Revenue Bonds. Proceeds from the sale of the bonds are being used to purchase the land and construct the Pacific Highlands Ranch School #7 named Sycamore Ridge. The first interest payment on the bonds was paid on March 1, 2004 and is due semi-annually thereafter on March 1 and September 1. The interest rate varies; in 2005 it is 2% and increases to 5.875% in 2025 through 2038. The first principal payment of \$135,000 is due on September 1, 2005.

The debt service and interest payments for both the COP's and the Lease Revenue Bonds will be paid with revenues generated from the two CFD's. No District general operating funds will be used.

**Del Mar Union School District  
Management Discussion and Analysis  
Fiscal Year Ending June 30, 2006  
(Unaudited)**

**General Fund Budgetary Highlights**

Information about the district's major funds, including the General Fund, is shown later in this report. The General Fund is accounted for using the modified accrual basis of accounting. The district's budget is prepared according to California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of the year, interim reports are used for each major budget revision and are presented to the Governing Board for review and approval and regularly scheduled Board meetings and in accordance with deadlines established by the California Department of Education.

**Capital Assets**

At the end of the 2005-2006 fiscal year, the district had \$118,604,939 invested in land, land improvements, buildings, equipment, and capital equipment. After accumulated depreciation of \$13,609,901 is applied, the value of net capital assets is \$104,995,038.

**Current Financial Related Activities**

Over the years, Del Mar Union School District has maintained a strong, financially responsible budget. Each year the district takes a careful look at revenue and expenditure projections on a multi-year basis and adjusts its budget accordingly. Adjustments are necessary in order to maintain an acceptable and safe reserve balance. As the preceding information shows, assets are substantial and the amount of debt paid from general revenues is a very small percentage of the overall budget. However, the financial future is still full of challenges. Prudent planning and conservative spending must be a priority as the uncertainty of basic aid funding will continue. The reserves will help to minimize the impact of any loss of revenue and will allow sufficient planning time to secure alternative funding sources and reduce programs if necessary.

**Contacting the District**

The financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dena Whittington, Assistant Superintendent of Business Services, at the Del Mar Union School District, 225 9<sup>th</sup> Street, Del Mar, CA 92014.

***Basic Financial Statements***

**DEL MAR UNION SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS:</b>				
<i>Cash in County Treasury</i>	\$ 16,819,619	\$ 851,745	\$ 17,671,364	\$ -
<i>Cash on Hand and in Banks</i>	-	-	-	223,921
<i>Cash in Revolving Fund</i>	20,000	-	20,000	-
<i>Cash with a Fiscal Agent/Trustee</i>	4,285,399	-	4,285,399	-
<i>Accounts Receivable</i>	1,479,104	11,029	1,490,133	-
<i>Prepaid Expenses</i>	913,637	-	913,637	-
<i>Internal Balances</i>	76,800	(76,800)	-	-
<i>Capital Assets:</i>				
<i>Land</i>	34,889,107	-	34,889,107	-
<i>Improvements</i>	1,894,608	-	1,894,608	-
<i>Buildings</i>	79,359,023	-	79,359,023	-
<i>Equipment</i>	2,462,201	-	2,462,201	-
<i>Less Accumulated Depreciation</i>	(13,609,901)	-	(13,609,901)	-
<b>Total Assets</b>	<b>128,589,597</b>	<b>785,974</b>	<b>129,375,571</b>	<b>223,921</b>
<b>LIABILITIES:</b>				
<i>Accounts Payable</i>	898,934	19,320	918,254	129
<i>Current Loans</i>	3,500,000	-	3,500,000	-
<i>Deferred Revenue</i>	123,474	-	123,474	-
<i>Long-term Liabilities:</i>				
<i>Due within one year</i>	701,049	-	701,049	-
<i>Due in more than one year</i>	22,189,134	-	22,189,134	-
<b>Total Liabilities</b>	<b>27,412,591</b>	<b>19,320</b>	<b>27,431,911</b>	<b>129</b>
<b>NET ASSETS:</b>				
<i>Invested in capital assets, net of related debt</i>	82,104,855	-	82,104,855	-
<i>Restricted for:</i>				
<i>Capital Projects</i>	10,173,821	-	10,173,821	-
<i>Other Purposes (expendable)</i>	2,763,508	-	2,763,508	158,290
<i>Other Purposes (nonexpendable)</i>	1,392,680	-	1,392,680	-
<i>Unrestricted</i>	4,742,142	766,654	5,508,796	65,502
<b>Total Net Assets</b>	<b>\$ 101,177,006</b>	<b>\$ 766,654</b>	<b>\$ 101,943,660</b>	<b>\$ 223,792</b>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>PRIMARY GOVERNMENT:</b>								
<b>Government Activities:</b>								
<i>Instruction</i>	\$ 23,674,269	\$ -	\$ 2,488,728	\$ -	\$ (21,185,541)	\$ -	\$ (21,185,541)	
<i>Instruction-Related Services</i>	3,409,197	-	285,943	-	(3,123,254)	-	(3,123,254)	
<i>Pupil Services</i>	1,488,179	571,433	95,731	-	(821,015)	-	(821,015)	
<i>General Administration</i>	1,642,893	99,949	4,902	-	(1,538,042)	-	(1,538,042)	
<i>Plant Services</i>	3,050,505	-	166,142	-	(2,884,363)	-	(2,884,363)	
<i>Interest on long-term debt</i>	1,245,411	-	-	-	(1,245,411)	-	(1,245,411)	
<i>Other Outgo</i>	285,227	-	252,013	-	(33,214)	-	(33,214)	
<b>Total Governmental Activities</b>	<b>34,795,681</b>	<b>671,382</b>	<b>3,293,459</b>	<b>-</b>	<b>(30,830,840)</b>	<b>-</b>	<b>(30,830,840)</b>	
<b>Business-type Activities:</b>								
Enterprising Activities	2,094,371	-	-	-	-	\$ (2,094,371)	(2,094,371)	
<b>Total Primary Government</b>	<b>\$ 36,890,052</b>	<b>\$ 671,382</b>	<b>\$ 3,293,459</b>	<b>\$ -</b>	<b>(30,830,840)</b>	<b>(2,094,371)</b>	<b>(32,925,211)</b>	
<b>COMPONENT UNIT:</b>								
Del Mar Schools Education Foundation	\$ 1,074,919	\$ -	\$ -	\$ -				\$ (1,074,919)
<b>General Revenues:</b>								
<i>Taxes and subventions</i>					26,821,550	-	26,821,550	-
<i>Federal and state aid not restricted to specific purposes</i>					2,640,752	-	2,640,752	-
<i>Interest and investment earnings</i>					497,516	41,747	539,263	-
<i>Miscellaneous</i>					2,145,703	2,307,190	4,452,893	1,098,328
<i>Internal Transfers</i>					724,616	(724,616)	-	-
<b>Total General Revenues</b>					<b>32,830,137</b>	<b>1,624,321</b>	<b>34,454,458</b>	<b>1,098,328</b>
Change in Net Assets					1,999,297	(470,050)	1,529,247	23,409
Net Assets - Beginning					100,434,022	1,236,704	101,670,726	200,383
Adjustment to Beginning Net Assets (Note N)					(1,256,313)	-	(1,256,313)	-
<b>Net Assets - Ending</b>					<b>\$ 101,177,006</b>	<b>766,654</b>	<b>101,943,660</b>	<b>223,792</b>

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

Capital Project Fund for Blended Component Unit	Other Governmental Funds	Total Governmental Funds
\$ 7,873,039	\$ 3,096,954	\$ 16,819,618
-	-	20,000
751,092	-	4,285,399
80,672	42,594	1,479,104
-	-	1,294,811
<u>\$ 8,704,803</u>	<u>\$ 3,139,548</u>	<u>\$ 23,898,932</u>
\$ 130,527	\$ 504	\$ 481,974
-	-	1,218,011
-	-	3,500,000
-	-	123,474
<u>130,527</u>	<u>504</u>	<u>5,323,459</u>
-	-	20,000
8,574,276	-	15,416,429
-	1,539,499	1,539,499
-	1,599,545	1,599,545
<u>8,574,276</u>	<u>3,139,044</u>	<u>18,575,473</u>
<u>\$ 8,704,803</u>	<u>\$ 3,139,548</u>	<u>\$ 23,898,932</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

Total fund balances - governmental funds balance sheet		\$ 18,575,473
<p>Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:</p>		
<p>Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.</p>		
Capital assets relating to governmental activities, at historical cost	118,604,939	
Accumulated depreciation	<u>(13,609,901)</u>	
	Net	104,995,038
<p>Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:</p>		
		913,637
<p>Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:</p>		
		(416,959)
<p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>		
Compensated absences payable	183,854	
Certificates of participation payable	11,700,000	
Capital leases payable	521,329	
Lease revenue bonds payable	<u>10,485,000</u>	
	Total	<u>(22,890,183)</u>
Net assets of governmental activities - statement of net assets		<u>\$ 101,177,006</u>

The accompanying notes are an integral part of this statement.

<u>Capital Project Fund for Blended Component Unit</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 4,788
-	-	24,577,167
-	-	704,843
-	133,437	3,833,675
<u>2,766,996</u>	<u>264,343</u>	<u>7,202,524</u>
<u>2,766,996</u>	<u>397,780</u>	<u>36,322,997</u>
-	-	21,771,861
-	-	3,358,151
-	-	1,488,179
-	1,698	1,645,722
<u>3,372,799</u>	<u>392,685</u>	<u>7,042,063</u>
-	-	164,564
-	390,000	521,870
-	1,180,584	1,209,450
<u>3,372,799</u>	<u>1,964,967</u>	<u>37,201,860</u>
<u>(605,803)</u>	<u>(1,567,187)</u>	<u>(878,863)</u>
-	-	-
709,504	1,676,702	2,401,318
<u>(1,570,584)</u>	<u>-</u>	<u>(1,676,702)</u>
<u>(861,080)</u>	<u>1,676,702</u>	<u>724,616</u>
<u>(1,466,883)</u>	<u>109,515</u>	<u>(154,247)</u>
10,041,159	3,029,529	18,729,720
<u>\$ 8,574,276</u>	<u>\$ 3,139,044</u>	<u>\$ 18,575,473</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds \$ (154,247)

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

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	Expenditures for capital outlay	3,750,487	
	Depreciation expense	(1,965,017)	
	Net	<u>1,785,470</u>	1,785,470

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 530,261

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is: (169,232)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 4,217

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 2,828

Change in net assets of governmental activities - statement of activities \$ 1,999,297

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**

## STATEMENT OF NET ASSETS

## ENTERPRISE FUND

JUNE 30, 2006

	Enterprise Fund
	Enterprise Fund
<b>ASSETS:</b>	
Current Assets:	
<i>Cash in County Treasury</i>	\$ 851,745
<i>Accounts Receivable</i>	11,029
Total Current Assets	<u>862,774</u>
Total Assets	<u>\$ 862,774</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
<i>Accounts Payable</i>	\$ 19,320
<i>Due to Other Funds</i>	76,800
Total Current Liabilities	<u>96,120</u>
Total Liabilities	<u>96,120</u>
<b>NET ASSETS:</b>	
<i>Unrestricted Net Assets</i>	766,654
Total Net Assets	<u>\$ 766,654</u>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - ENTERPRISE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Enterprise Fund</u>
Operating Revenues:	
<i>Local Revenue</i>	\$ 2,348,937
Total Revenues	<u>2,348,937</u>
Operating Expenses:	
<i>Certificated Personnel Salaries</i>	58,117
<i>Classified Personnel Salaries</i>	1,429,772
<i>Employee Benefits</i>	305,332
<i>Books and Supplies</i>	149,873
<i>Services and Other Operating Expenses</i>	151,277
Total Expenses	<u>2,094,371</u>
Income (Loss) before Contributions and Transfers	254,566
<i>Interfund Transfers Out</i>	<u>(724,616)</u>
Change in Net Assets	(470,050)
Total Net Assets - Beginning	1,236,703
Total Net Assets - Ending	<u>\$ 766,653</u>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Fund
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Received from Customers</i>	\$ 2,325,206
<i>Cash Payments for Payroll and Related Benefits</i>	(1,793,221)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(299,117)
Net Cash Provided (Used) by Operating Activities	<u>232,868</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Transfers From (To) Other Funds</i>	(724,616)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(724,616)</u>
<b>Cash Flows from Investing Activities:</b>	
<i>Interest and Dividends on Investments</i>	41,747
Net Cash Provided (Used) for Investing Activities	<u>41,747</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(450,001)
Cash and Cash Equivalents at Beginning of Year	1,301,746
Cash and Cash Equivalents at End of Year	<u>\$ 851,745</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ (470,050)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	18,016
<i>Increase (Decrease) in Accounts Payable</i>	3,183
<i>Increase (Decrease) in Due to</i>	(1,150)
Total Adjustments	<u>20,049</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (450,001)</u>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**

*STATEMENT OF FIDUCIARY NET ASSETS*

*FIDUCIARY FUNDS*

*JUNE 30, 2006*

**ASSETS:**

*Cash in County Treasury*

*Accounts Receivable*

Total Assets

**LIABILITIES:**

Total Liabilities

**NET ASSETS:**

*Held in Trust*

Total Net Assets

Private-Purpose  
Trust  
Funds

---

Foundation  
Private-Purpose  
Trust Fund

---

\$	41,379
	434
<u>\$</u>	<u>41,813</u>

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-

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\$	41,813
<u>\$</u>	<u>41,813</u>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Foundation Private-Purpose Trust Fund
<b>Additions:</b>	
Investment Income	\$ 1,419
Total Additions	<u>1,419</u>
<b>Deductions:</b>	
Administrative Expenses	200
Total Deductions	<u>200</u>
<b>Change in Net Assets</b>	1,219
Net Assets-Beginning of the Year	40,594
Net Assets-End of the Year	<u>\$ 41,813</u>

The accompanying notes are an integral part of this statement.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**A. Summary of Significant Accounting Policies**

Del Mar Union School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**1. Reporting Entity**

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has two component units, the Del Mar Schools Community Facilities Districts and the Del Mar Schools Education Foundation. The Del Mar Schools Community Facilities Districts are presented as a blended component unit in the District's audited financial statements. The Del Mar Schools Education Foundation, a California non-profit public benefit corporation which raises funds for the benefit of the District is presented as a discretely presented component unit in the District's audited financial statements.

Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

## **DEL MAR UNION SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

**General Fund.** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**Cafeteria Fund.** This fund is used to account separately for federal, state, and local resources to operate the food service program.

**Capital Project Fund for Blended Component Unit.** This fund is used to account for the transactions that are associated with the capital projects of the District's Community Facilities Districts (CFD).

The District reports the following major enterprise funds:

**Other Enterprise Fund.** This fund accounts for the financial resources of the district associated with the operation of the district's child care programs.

In addition, the District reports the following fund types:

**Special Revenue Funds.** These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

**Capital Projects Funds.** These funds are used to account for the proceeds of bond issuances and for the acquisition of capital assets of the district.

**Private-Purpose Trust Funds.** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

Encumbrance accounting is used in all budgeted 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. All encumbrances are liquidated as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

**b. Stores Inventories and Prepaid Expenditures**

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

**c. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	25-50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

**d. Receivable and Payable Balances**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

**e. Compensated Absences**

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$17,712,743 as of June 30, 2006). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$17,712,743. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances in the revolving fund (\$20,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments:

The District's investments at June 30, 2006 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Institutional T-Funds	\$ 4,285,399
Total Investments	<u>\$ 4,285,399</u>

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

5. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b><u>Governmental activities:</u></b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 32,476,189	\$ 2,412,918	\$ -	\$ 34,889,107
Work in progress	22,765,089	-	22,765,089	-
Total capital assets not being depreciated	<u>55,241,278</u>	<u>2,412,918</u>	<u>22,765,089</u>	<u>34,889,107</u>
<i>Capital assets being depreciated:</i>				
Buildings	55,966,310	23,392,713	-	79,359,023
Improvements	1,894,608	-	-	1,894,608
Equipment	1,499,621	962,580	-	2,462,201
Total capital assets being depreciated	<u>59,360,539</u>	<u>24,355,293</u>	<u>-</u>	<u>83,715,832</u>
Less accumulated depreciation for:				
Buildings	(9,498,615)	(1,771,845)	-	(11,270,460)
Improvements	(876,228)	(86,315)	-	(962,543)
Equipment	(1,270,041)	(106,857)	-	(1,376,898)
Total accumulated depreciation	<u>(11,644,884)</u>	<u>(1,965,017)</u>	<u>-</u>	<u>(13,609,901)</u>
Total capital assets being depreciated, net	<u>47,715,655</u>	<u>22,390,276</u>	<u>-</u>	<u>70,105,931</u>
Governmental activities capital assets, net	<u>\$ 102,956,933</u>	<u>\$ 24,803,194</u>	<u>\$ 22,765,089</u>	<u>\$ 104,995,038</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,902,405
Instruction-Related Services	51,048
Plant Services	11,564
	<u>\$ 1,965,017</u>

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at June 30, 2006 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
Cafeteria Fund	General Fund	\$ 641,112
General Fund	Cafeteria Fund	576,899
General Fund	Enterprise Fund	76,800
		<u>\$ 1,294,811</u>

All amounts due are scheduled to be repaid within one year.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2006 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Enterprise Fund	General Fund	\$ 15,112
General Fund	Deferred Maintenance Fund	106,118
Capital Projects Fund	Blended Component Unit	1,570,584
Enterprise Fund	Capital Projects Fund	7,009,504
		<u>\$ 8,701,318</u>

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ 3,225,000	\$ 3,500,000	\$ 3,225,000	\$ 3,500,000

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Capital leases	\$ 661,590	\$ -	\$ 140,261	\$ 521,329	117,195
Certificates of participation	11,955,000	-	255,000	11,700,000	265,000
Lease revenue bonds	10,620,000	-	135,000	10,485,000	135,000
Compensated absences *	186,682	-	2,828	183,854	183,854
Total governmental activities	<u>\$ 23,423,272</u>	<u>\$ -</u>	<u>\$ 533,089</u>	<u>\$ 22,890,183</u>	<u>\$ 701,049</u>

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

2. Debt Service Requirements

Debt service requirements on long-term debt, net of certificates of participation, at June 30, 2006 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2007	\$ 436,049	\$ 594,889	\$ 1,030,938
2008	254,779	585,230	840,009
2009	253,513	575,491	829,004
2010	244,613	566,205	810,818
2011	241,229	557,835	799,064
2012-2016	870,000	2,671,962	3,541,962
2017-2021	1,105,000	2,429,991	3,534,991
2022-2026	1,435,000	2,082,755	3,517,755
2027-2031	1,910,000	1,597,412	3,507,412
2032-2036	2,530,000	949,693	3,479,693
2037-2041	1,910,000	172,724	2,082,724
Totals	\$ 11,190,183	\$ 12,784,187	\$ 23,974,370

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2006 are as follows:

Year Ending June 30:	
2007	\$ 139,047
2008	130,113
2009	117,087
2010	99,231
2011	88,175
Total Minimum Lease Payments	\$ 573,653
Less Amounts Representing Interest	(52,324)
Net Minimum Lease Payments	\$ 521,329

4. Certificates of Participation

Future commitments for certificates of participation as of June 30, 2006 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2007	\$ 265,000	\$ 592,910	\$ 857,910
2008	275,000	581,162	856,162
2009	290,000	568,587	858,587
2010	300,000	555,162	855,162
2011	315,000	540,781	855,781
2012-2016	1,830,000	2,448,131	4,278,131
2017-2021	2,350,000	1,914,363	4,264,363
2022-2026	3,030,000	1,372,745	4,402,745
2027-2031	3,045,000	329,831	3,374,831
Totals	\$ 11,700,000	\$ 8,903,672	\$ 20,603,672

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

H. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurance for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2006 is as follows:

Total Assets	\$	679,456
Total Liabilities		49,187
Total Fund Balance		630,269
Total Cash Receipts		482,420
Total Cash Disbursements		466,258
Net Change in Fund Balance		16,162

I. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute 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 rate for fiscal year 2005-06 was 9.12% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2006, 2005 and 2004 were \$413,331, \$394,655 and \$372,851, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-06 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2006, 2005 and 2004 were \$1,388,824, \$1,227,415 and \$1,115,701, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$760,401.

J. Alternative Pension Plan

The District participates in one alternative pension plan through the Fringe Benefit Consortium (FBC). The FBC was formed in October 1982 as part of a Joint Powers Agreement (JPA) of the San Diego County Office of Education. The FBC provides 401(a), 457(b), and 403(b) investment programs. Under these plans, eligible employees will contribute between \$20 and \$14,000 per year of their salary before taxes. The plan earns interest and is paid out upon termination of service, death, or in-service withdrawal.

K. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. On June 30, 2006, fourteen retirees met these eligibility requirements.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2006, expenditures of \$73,290 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

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

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**M. Subsequent Events**

The district issued \$4,250,000 of Tax Revenue Anticipation Notes (TRANS) with an interest rate of 4.50% dated July 3, 2006. The TRANS was sold to supplement the district's cash flow and matures on July 27, 2007.

**N. Adjustment to Beginning Net Assets**

During the year the district input all fixed assets, previously tracked using Excel, into a more accurate fixed assets system. The new system caught and corrected several calculation errors reported in prior years which required significant changes to fixed asset and accumulated depreciation beginning balances. These changes resulted in an adjustment to beginning net assets in the amount of \$1,256,313.

### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**DEL MAR UNION SCHOOL DISTRICT**

**EXHIBIT B-1**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<b>Revenue Limit Sources:</b>				
<i>State Apportionments</i>	\$ (6,240)	\$ 4,788	\$ 4,788	\$ -
<i>Local Sources</i>	23,333,687	24,587,390	24,577,167	(10,223)
<i>Federal Revenue</i>	639,455	705,194	704,843	(351)
<i>Other State Revenue</i>	3,521,028	3,680,059	3,668,335	(11,724)
<i>Other Local Revenue</i>	2,884,683	3,201,988	3,498,777	296,789
<b>Total Revenues</b>	<u>30,372,613</u>	<u>32,179,419</u>	<u>32,453,910</u>	<u>274,491</u>
<b>Expenditures:</b>				
<i>Instruction</i>	21,388,148	22,331,020	21,771,861	559,159
<i>Instruction - Related Services</i>	3,169,587	3,358,870	3,358,151	719
<i>Pupil Services</i>	957,870	970,964	954,883	16,081
<i>General Administration</i>	1,685,342	1,678,540	1,550,746	127,794
<i>Plant Services</i>	2,950,842	3,823,099	3,276,579	546,520
<i>Other Outgo</i>	-	164,564	164,564	-
<b>Debt Service:</b>				
<i>Principal</i>	373,545	165,487	131,870	33,617
<i>Interest</i>	-	28,866	28,866	-
<b>Total Expenditures</b>	<u>30,525,334</u>	<u>32,521,410</u>	<u>31,237,520</u>	<u>1,283,890</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(152,721)</u>	<u>(341,991)</u>	<u>1,216,390</u>	<u>1,558,381</u>
<b>Other Financing Sources (Uses):</b>				
<i>Transfers In</i>	-	15,112	15,112	-
<i>Transfers Out</i>	-	(106,118)	(106,118)	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(91,006)</u>	<u>(91,006)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>(152,721)</u>	<u>(432,997)</u>	<u>1,125,384</u>	<u>1,558,381</u>
<b>Fund Balance, July 1</b>	<u>5,639,024</u>	<u>5,639,024</u>	<u>5,639,024</u>	<u>-</u>
<b>Fund Balance, June 30</b>	<u>\$ 5,486,303</u>	<u>\$ 5,206,027</u>	<u>\$ 6,764,408</u>	<u>\$ 1,558,381</u>

**DEL MAR UNION SCHOOL DISTRICT****CAFETERIA FUND****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED JUNE 30, 2006****EXHIBIT B-2**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Other State Revenue</i>	\$ 29,500	\$ 31,903	\$ 31,903	\$ -
<i>Other Local Revenue</i>	24,684	672,102	672,408	306
<b>Total Revenues</b>	<u>54,184</u>	<u>704,005</u>	<u>704,311</u>	<u>306</u>
<b>Expenditures:</b>				
<i>Pupil Services</i>	45,500	533,298	533,296	2
<i>General Administration</i>	-	93,287	93,278	9
<b>Total Expenditures</b>	<u>45,500</u>	<u>626,585</u>	<u>626,574</u>	<u>11</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>8,684</u>	<u>77,420</u>	<u>77,737</u>	<u>317</u>
<b>Net Change in Fund Balance</b>	8,684	77,420	77,737	317
<b>Fund Balance, July 1</b>	20,008	20,008	20,008	-
<b>Fund Balance, June 30</b>	<u>\$ 28,692</u>	<u>\$ 97,428</u>	<u>\$ 97,745</u>	<u>\$ 317</u>

***Combining Statements and Budget Comparisons  
as Supplementary Information***

**This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.**

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
<b>ASSETS:</b>			
<i>Cash in County Treasury</i>	\$ 1,524,006	\$ 1,572,948	\$ 3,096,954
<i>Accounts Receivable</i>	15,493	27,101	42,594
<b>Total Assets</b>	<u>\$ 1,539,499</u>	<u>\$ 1,600,049</u>	<u>\$ 3,139,548</u>
<b>LIABILITIES AND FUND BALANCE:</b>			
<b>Liabilities:</b>			
<i>Accounts Payable</i>	\$ -	\$ 504	\$ 504
<b>Total Liabilities</b>	<u>-</u>	<u>504</u>	<u>504</u>
<b>Fund Balance:</b>			
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	1,539,499	-	1,539,499
<i>Capital Projects Funds</i>	-	1,599,545	1,599,545
<b>Total Fund Balance</b>	<u>1,539,499</u>	<u>1,599,545</u>	<u>3,139,044</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,539,499</u>	<u>\$ 1,600,049</u>	<u>\$ 3,139,548</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Special Revenue Funds	Debt Service Fund Blended Component Unit	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
<b>Revenues:</b>				
<i>Other State Revenue</i>	\$ 133,437	\$ -	\$ -	\$ 133,437
<i>Other Local Revenue</i>	47,656	-	216,687	264,343
<b>Total Revenues</b>	<u>181,093</u>	<u>-</u>	<u>216,687</u>	<u>397,780</u>
<b>Expenditures:</b>				
<i>General Administration</i>	-	-	1,698	1,698
<i>Plant Services</i>	129,644	-	263,041	392,685
<b>Debt Service:</b>				
<i>Principal</i>	-	390,000	-	390,000
<i>Interest</i>	-	1,180,584	-	1,180,584
<b>Total Expenditures</b>	<u>129,644</u>	<u>1,570,584</u>	<u>264,739</u>	<u>1,964,967</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>51,449</u>	<u>(1,570,584)</u>	<u>(48,052)</u>	<u>(1,567,187)</u>
<b>Other Financing Sources (Uses):</b>				
<i>Transfers In</i>	106,118	1,570,584	-	1,676,702
<b>Total Other Financing Sources (Uses)</b>	<u>106,118</u>	<u>1,570,584</u>	<u>-</u>	<u>1,676,702</u>
<b>Net Change in Fund Balance</b>	157,567	-	(48,052)	109,515
<b>Fund Balance, July 1</b>	1,381,932	-	1,647,597	3,029,529
<b>Fund Balance, June 30</b>	<u>\$ 1,539,499</u>	<u>\$ -</u>	<u>\$ 1,599,545</u>	<u>\$ 3,139,044</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2006**

	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
<b>ASSETS:</b>			
<i>Cash in County Treasury</i>	\$ 353,224	\$ 1,170,782	\$ 1,524,006
<i>Accounts Receivable</i>	3,695	11,798	15,493
Total Assets	<u>\$ 356,919</u>	<u>\$ 1,182,580</u>	<u>\$ 1,539,499</u>
<b>LIABILITIES AND FUND BALANCE:</b>			
Liabilities:			
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:			
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	\$ 356,919	\$ 1,182,580	\$ 1,539,499
Total Fund Balance	<u>356,919</u>	<u>1,182,580</u>	<u>1,539,499</u>
Total Liabilities and Fund Balances	<u>\$ 356,919</u>	<u>\$ 1,182,580</u>	<u>\$ 1,539,499</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
<b>Revenues:</b>			
<i>Other State Revenue</i>	\$ 133,437	\$ -	\$ 133,437
<i>Other Local Revenue</i>	7,975	39,681	47,656
<b>Total Revenues</b>	<u>141,412</u>	<u>39,681</u>	<u>181,093</u>
<b>Expenditures:</b>			
<i>Plant Services</i>	129,644	-	129,644
<b>Total Expenditures</b>	<u>129,644</u>	<u>-</u>	<u>129,644</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>11,768</u>	<u>39,681</u>	<u>51,449</u>
<b>Other Financing Sources (Uses):</b>			
<i>Transfers In</i>	106,118	-	106,118
<b>Total Other Financing Sources (Uses)</b>	<u>106,118</u>	<u>-</u>	<u>106,118</u>
<b>Net Change in Fund Balance</b>	117,886	39,681	157,567
<b>Fund Balance, July 1</b>	239,033	1,142,899	1,381,932
<b>Fund Balance, June 30</b>	<u>\$ 356,919</u>	<u>\$ 1,182,580</u>	<u>\$ 1,539,499</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**JUNE 30, 2006**

	Capital Facilities Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
<b>ASSETS:</b>			
<i>Cash in County Treasury</i>	\$ 51,587	\$ 1,521,361	\$ 1,572,948
<i>Accounts Receivable</i>	11,212	15,889	27,101
<b>Total Assets</b>	<u>\$ 62,799</u>	<u>\$ 1,537,250</u>	<u>\$ 1,600,049</u>
<b>LIABILITIES AND FUND BALANCE:</b>			
Liabilities:			
<i>Accounts Payable</i>	\$ 504	\$ -	\$ 504
<b>Total Liabilities</b>	<u>504</u>	<u>-</u>	<u>504</u>
Fund Balance:			
Unreserved, reported in nonmajor:			
<i>Capital Projects Funds</i>	62,295	1,537,250	1,599,545
<b>Total Fund Balance</b>	<u>62,295</u>	<u>1,537,250</u>	<u>1,599,545</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 62,799</u>	<u>\$ 1,537,250</u>	<u>\$ 1,600,049</u>

**DEL MAR UNION SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Capital Facilities Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:			
<i>Other Local Revenue</i>	\$ 164,335	\$ 52,352	\$ 216,687
Total Revenues	<u>164,335</u>	<u>52,352</u>	<u>216,687</u>
Expenditures:			
<i>General Administration</i>	1,698	-	1,698
<i>Plant Services</i>	194,995	68,046	263,041
Total Expenditures	<u>196,693</u>	<u>68,046</u>	<u>264,739</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(32,358)</u>	<u>(15,694)</u>	<u>(48,052)</u>
Net Change in Fund Balance	(32,358)	(15,694)	(48,052)
Fund Balance, July 1	94,653	1,552,944	1,647,597
Fund Balance, June 30	<u>\$ 62,295</u>	<u>\$ 1,537,250</u>	<u>\$ 1,599,545</u>

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

***Supplementary Information Section***

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**YEAR ENDED JUNE 30, 2006**

**TABLE D-1**

	<u>Second Period Report</u>	<u>Amended Annual Report</u>
Elementary:		
Kindergarten	490.81	491.13
Grades 1 through 3	1,608.50	1,607.15
Grades 4 through 6	1,470.28	1,470.98
Special education	39.46	40.43
Elementary totals	<u>3,609.05</u>	<u>3,609.69</u>
ADA totals	<u>3,609.05</u>	<u>3,609.69</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	5,887	

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.

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**YEAR ENDED JUNE 30, 2006**

**TABLE D-2**

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	42,530	180	-	Complied
Grades 1 through 3	51,220	50,400	54,570	180	-	Complied
Grades 4 through 6	51,220	54,000	54,570	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2006**

**TABLE D-3**

General Fund	(Budget) 2007	2006	2005	2004
Revenues and other financial sources	\$ 33,608,932	\$ 32,469,022	\$ 29,355,227	\$ 26,303,947
Expenditures, other uses and transfers out	33,670,669	31,343,638	29,204,013	25,767,128
Change in fund balance (deficit)	(61,737)	1,125,384	151,214	536,819
Ending fund balance	\$ 6,702,671	\$ 6,764,408	\$ 5,639,024	\$ 5,487,810
Available reserves	\$ 6,682,671	\$ 6,744,408	\$ 5,406,796	\$ 5,450,143
Available reserves as a percentage of total outgo	19.8%	21.5%	18.5%	21.2%
Total long-term debt	\$ 22,189,134	\$ 22,890,183	\$ 23,423,272	\$ 23,782,137
Average daily attendance at P-2	3,609	3,609	3,556	3,391

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The district's general fund balance has increased by \$1,813,417 over the past three years. The fiscal year 2006-07 budget projects a decrease of \$61,737. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has increased by \$9,406,623 over the past three years.

Average daily attendance has increased by 383 over the past three years.

**DEL MAR UNION SCHOOL DISTRICT**  
*RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT WITH AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006*

**TABLE D-4**

The fund balances for all funds reported in the accompanying audited financial statements are in agreement with the fund balances reported by the district in their unaudited financial statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

**DEL MAR UNION SCHOOL DISTRICT**  
*SCHEDULE OF CHARTER SCHOOLS*  
*YEAR ENDED JUNE 30, 2006*

**TABLE D-5**

No charter schools are chartered by Del Mar Union School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2006**

**TABLE D-6**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education:			
Special Education *	84.027	03379	\$ 554,229
Preschool *	84.173	03430	84,869
Title IV - Safe and Drug Free Schools	84.186	03453	8,172
Title V - Innovative	84.298	03340	4,902
Title III - LEP	84.365	03249	11,200
Title II - Teacher Quality	84.367	04035	41,396
Title VI - ELDT	84.369	04363	75
Total Passed Through State Department of Education			<u>704,843</u>
Total U. S. Department of Education			<u>704,843</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 704,843</u></u>

\* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

**DEL MAR UNION SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Del Mar Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 general purpose financial statements.

*Other Independent Auditor's Reports*

**WILKINSON HADLEY & CO, LLP**  
**CPA's and Advisors**  
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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

Board of Trustees  
Del Mar Union School District  
Del Mar, California 92014

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Del Mar Union School District as of and for the year ended June 30, 2006, which collectively comprise the Del Mar Union School District's basic financial statements and have issued our report thereon dated November 1, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Del Mar Union School 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses; however, we noted certain other matters that we have reported on in the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Del Mar Union School 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*.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
November 1, 2006

**WILKINSON HADLEY & CO, LLP**  
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Report on Compliance with Requirements Applicable  
To each Major Program and Internal Control over Compliance  
In Accordance With OMB Circular A-133

Board of Trustees  
Del Mar Union School District  
Del Mar, California 92014

Members of the Board of Trustees:

Compliance

We have audited the compliance of Del Mar Union School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Del Mar Union School District's major federal programs are identified in the summary of auditor's 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 Del Mar Union School District's management. Our responsibility is to express an opinion on Del Mar Union School District's compliance based on our audit.

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 Del Mar Union School 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 on Del Mar Union School District's compliance with those requirements.

In our opinion, Del Mar Union School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006, except as noted in the findings in the Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of Del Mar Union School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Del Mar Union School 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP  
November 1, 2006

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Auditor's Report on State Compliance

Board of Trustees  
 Del Mar Union School District  
 Del Mar, California 92014

Members of the Board of Trustees:

We have audited the basic financial statements of the Del Mar Union School District ("District") as of and for the year ended June 30, 2006, and have issued our report thereon dated November 1, 2006. Our audit was made 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 State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2005-06*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

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:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Not Applicable
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable
Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Not Applicable
Ratios 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	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Only One School Serving Grades K-3	4	Not Applicable
Contemporaneous Records of Attendance, For Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Additional Nonclassroom-Based Instruction, For Charter Schools	1	Not Applicable
Determination of Funding for Nonclassroom-Based		
Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Not Applicable

Based on our audit, we found that, for the items tested, Del Mar Union School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Del Mar Union School District had not complied with the state laws and regulations, except as described in the Findings and Recommendations section of this report.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, 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.

*Wilkinson Hadley & Co., LLP*

Wilkinson Hadley & Co., LLP

November 1, 2006

*Findings and Recommendations Section*

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**A. Summary of Auditor's Results**

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?      Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?   X   Yes      None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?   X   Yes      No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes      No

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

3. State Awards

Internal control over state programs:

Material weakness(es) identified?	<u>    </u> Yes	<u>  X  </u> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<u>    </u> Yes	<u>  X  </u> None Reported

Type of auditor's report issued on compliance for state programs: Unqualified

**B. Financial Statement Findings**

Finding 2006-1 (60000)  
 Food Service Practices

Criteria or Specific Requirement

Determine that the district has internal control policies and procedures in place to comply with all applicable federal and state regulations.

Condition

During the course of our audit it came to our attention that the California Department of Education required the district to complete a corrective action plan for several violations of state and federal regulations involving the district's food service practices. The corrective action required significant restructuring of the food service practices and implementation of the National School Lunch Program. Further review of the corrective actions showed that the district has complied with the requirements set forth by the California Department of Education.

Questioned Costs

None

Recommendation

We recommend the district continue to adhere to the corrective action plan as set up, in order to comply with the requirements as set forth by the California Department of Education.

LEA's Response

The district is committed to continuing with the changes made to the lunch program during the 2006-07 school year as recommended by the California Department of Education.

**C. Federal Award Findings and Questioned Costs**

Finding 2006-2 (50000)  
 Federal Payroll Documentation

Federal Program Information

Special Education

Criteria or Specific Requirement

Determine that the district has obtained semi-annual certifications or Personnel Activity Reports that are in compliance with OMB Circular A-87 for employees charged to federal programs.

**DEL MAR UNION SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Condition

In our review of semi-annual certifications obtained for the special education program, we noted that the certification did not indicate the period it covered, nor did it have a date signed indicated on the form.

Questioned Costs

\$553,560

Recommendation

We recommend the district review Procedure 905 in the California School Accounting Manual and revise semi-annual certifications to include all required information including the period the certification is covering and the date the certification is signed.

LEA's Response

The semi-annual time certifications have been revised for the 2006-07 school year to meet the requirements of OMB Circular A-87.

**D. State Award Findings and Questioned Costs**

Finding 2006-3 (10000)

Attendance Reporting

Criteria or Specific Requirement

Determine whether the Second Principal and Annual reports of attendance submitted to the California Department of Education reconcile to supporting documents.

Condition

In our review of the Annual report of attendance submitted to the California Department of Education, we noted a clerical error which caused Average Daily Attendance (ADA) to be overstated by 1 ADA in grades 4 through 6.

Questioned Costs

Overstatement of 1 ADA on the Annual report of attendance.

Recommendation

We recommend the district amend the Annual report of attendance to accurately report ADA to the California Department of Education. In addition, we recommend the district implement procedures which would require careful review of all reports submitted in order to avoid inaccurate reporting due to clerical errors in the future.

LEA's Response

The Annual report of attendance has been revised to accurately report the district ADA to the California Department of Education. Tasks have been reassigned in the business department to allow for verification of data prior to submission.

**DEL MAR UNION SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
There were no findings reported in the 2004-05 audit report.		