

FALCON SCHOOL DISTRICT 49

**Falcon, Colorado
Financial Statements**

June 30, 2005

FALCON SCHOOL DISTRICT 49

Financial Statements

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FALCON SCHOOL DISTRICT 49
ROSTER OF SCHOOL OFFICIALS
June 30, 2005

BOARD OF EDUCATION

Paul Bryant	President
Judy Holman	Vice President
Carol Chapman	Secretary
Laine Gibson	Co-Treasurer
Dave Martin	Co-Treasurer

SCHOOL OFFICIALS

Dr. Ronald Wynn	Superintendent
Lisa Schneider	Finance Manager

FINANCIAL SECTION

Management's Discussion and Analysis

As management of Falcon School District 49, we offer readers of the Falcon School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

Financial Highlights

- The primary government has government-wide net assets totaling \$24,422,236 at the end of the current fiscal year.
- The general fund ending fund balance of \$7,886,691 maintained by fund balance to revenue ratio above 10% (per Board of Education Policy).
- Business-type activities reported unrestricted net assets of \$545,053 in the Nutritional Service Fund.
- The District maintained its lowest tax rate in over ten years.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The Falcon School District's basic financial statements are comprised of three components: 1) government – wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net assets and the statement of activities.

The statement of net assets presents information about all the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. Over time changes in net assets may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net assets of the District changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements consolidate governmental activities that are supported by taxes and intergovernmental revenues and business-type activities that are intended to recover all or most of their costs from user fees and charges. Governmental activities consolidate governmental funds including the general fund, debt service fund, capital projects funds, and special revenue funds. Business-type activities are made up of the food service fund.

Fund Financial Statements

A fund is a grouping of self balancing, related accounts that are used to maintain control over resources that have been segregated for specific purposes. The Falcon School District uses fund accounting to ensure and demonstrate compliance with financial and legal requirements. All of the District's funds can be divided into two categories: government funds and proprietary funds.

Governmental Funds

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

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

The Falcon School District maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the bond redemption debt service fund and the grant fund because all are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Falcon School District adopts an annual budget for each of the governmental funds. A budgetary comparison schedule for the general fund is included in the fund financial statements to demonstrate compliance with the adopted budget.

Proprietary Funds

The Falcon School District maintains one proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses a Proprietary fund to account for its nutritional services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Falcon School District's own programs. The two fiduciary funds utilized by the District are the Falcon Scholarship Fund and the Pupil Activity Fund. The accounting for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

The combining statements referred to earlier in connection with non-major governmental funds are presented after the notes to the required supplementary information.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, an annual review of net assets may serve as a useful indicator of a government's financial position. In the case of Falcon School District, assets exceeded liabilities by \$17,630,176 in Governmental Activities and \$1,053,116 in Business Activities, compared to the prior year amounts of \$14,312,204 in Governmental Activities and \$979,040 in Business Activities.

The assets of the District are classified as current assets, noncurrent assets and capital assets. Current assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of the property tax process, with the majority of these taxes received in May and June.

Noncurrent assets are mainly comprised of bond issue costs which will be expensed over the life of the various bond issues.

Capital assets are made up of land, buildings, equipment/vehicles, construction in progress, and the Building Authority's school financed through Certificates of Participation (COP), which were paid off during 2004-2005. Current and long-term liabilities are classified based upon anticipated liquidation, either in the near-term or in the future. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal year 2004-2005. Long term liabilities such as long-term debt obligations will be liquidated from resources that will become available after fiscal year 2004-2005.

A net investment in Governmental Activities of \$75,525,544 in land, buildings, equipment/vehicles and construction in progress provide services to the District's 9,700 students and represents 76% of the District's total assets. The legally required TABOR reserve and amounts to settle multi-year obligations have also been restricted.

FALCON SCHOOL DISTRICT 49
CONDENSED STATEMENT OF NET ASSETS
As of June 30,

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
ASSETS						
Current assets	\$ 22,437,755	\$ 17,685,009	\$ 664,545	\$ 583,405	\$ 23,102,300	\$ 18,268,414
Non current assets	425,531	627,540	-	-	425,531	627,540
Capital assets, net of depreciation	<u>75,525,544</u>	<u>77,933,708</u>	<u>508,063</u>	<u>534,974</u>	<u>76,033,607</u>	<u>78,468,682</u>
Total assets	<u>98,388,830</u>	<u>96,246,257</u>	<u>1,172,608</u>	<u>1,118,379</u>	<u>99,561,438</u>	<u>97,364,636</u>
LIABILITIES						
Current liabilities	8,512,654	9,658,622	75,088	81,053	8,587,742	9,739,675
Long-term liabilities	<u>72,246,000</u>	<u>72,275,431</u>	<u>44,404</u>	<u>58,287</u>	<u>72,290,404</u>	<u>72,333,718</u>
Total liabilities	<u>80,758,654</u>	<u>81,934,053</u>	<u>119,492</u>	<u>139,340</u>	<u>80,878,146</u>	<u>82,073,393</u>
NET ASSETS						
Invested in Capital Assets Net of Related Debt	4,228,699	6,435,862	508,063	534,974	4,736,762	6,970,836
Restricted for						
TABOR	1,850,000	1,626,000	-	-	1,850,000	1,626,000
Multi year obligations	806,000	662,100	-	-	806,000	662,100
Debt Service	5,315,871	4,804,800	-	-	5,315,871	4,804,800
Construction	1,000	-	-	-	1,000	-
Capital purposes	624,924	163,914	-	-	624,924	163,914
Risk Management	16,738	2,439	-	444,066	16,738	446,505
Unreserved	<u>4,586,944</u>	<u>617,089</u>	<u>545,053</u>	<u>-</u>	<u>5,131,997</u>	<u>617,089</u>
TOTAL NET ASSETS	<u>17,430,176</u>	<u>14,312,204</u>	<u>1,053,116</u>	<u>979,040</u>	<u>18,483,292</u>	<u>15,291,244</u>

Statement of Activities

Governmental activities increased the net assets of the District by \$3,317,972. Program revenues included \$579,402 in charges for services \$3,827,044 in operating grants and contributions. Over \$61 million was received in general revenues consisting of local property taxes, specific ownership taxes, and school finance act revenue. The majority of expenses were for instructional purposes which totaled \$35,299,132 out of a total of \$62,811,792.

Business type activities (Nutritional Services) increased net assets by \$74,076. Program revenues included \$1,647,746 in charges for services, \$534,505 in operating grants and contributions. All expenditures of \$2,108,175 were for food services.

FALCON SCHOOL DISTRICT 49 CONDENSED STATEMENT OF ACTIVITY As of June 30,

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Charges for service	\$ 579,402	\$ 556,251	\$ 1,647,746	\$ 1,455,515	\$ 2,227,148	\$ 2,011,766
Operating grants & contributions	-	3,101,635	534,505	475,623	534,505	3,577,258
Capital grants & contributions	3,827,044	2,487,849	-	-	3,827,044	2,487,849
GENERAL REVENUES						
Property taxes	15,551,939	13,968,304	-	-	15,551,939	13,968,304
Specific ownership taxes	2,213,671	1,960,981	-	-	2,213,671	1,960,981
State equalization	43,022,750	36,483,989	-	-	43,022,750	36,483,989
Investment earnings	178,564	194,793	-	-	178,564	194,793
Miscellaneous revenues	756,394	322,841	-	-	756,394	322,841
TOTAL REVENUES	<u>66,129,764</u>	<u>59,076,643</u>	<u>2,182,251</u>	<u>1,931,138</u>	<u>68,312,015</u>	<u>61,007,781</u>
EXPENDITURES						
Instruction	39,383,826	34,550,052	-	-	39,383,826	34,550,052
Instructional support	2,260,942	3,597,016	-	-	2,260,942	3,597,016
General administration	461,864	3,345,406	-	-	461,864	3,345,406
School administration	3,316,018	2,919,711	-	-	3,316,018	2,919,711
Business services	598,267	552,251	-	-	598,267	552,251
Maintenance and operations	5,468,364	5,106,657	-	-	5,468,364	5,106,657
Transportation	3,163,788	2,763,789	-	-	3,163,788	2,763,789
Central services	4,388,977	2,457,730	-	-	4,388,977	2,457,730
Other services	10,680	42,075	-	-	10,680	42,075
Interest expense	3,859,066	-	-	-	3,859,066	-
Food Service	-	-	2,108,175	1,905,798	2,108,175	1,905,798
TOTAL EXPENDITURES	<u>62,911,792</u>	<u>55,334,687</u>	<u>2,108,175</u>	<u>1,905,798</u>	<u>65,019,967</u>	<u>57,240,485</u>
Increase in Net Assets	3,217,972	3,741,956	74,076	25,340	3,292,048	3,767,296
Beginning Net Assets	14,312,204	10,570,248	979,040	953,700	15,291,244	11,523,948
TOTAL NET ASSETS	<u>17,530,176</u>	<u>14,312,204</u>	<u>1,053,116</u>	<u>979,040</u>	<u>18,583,292</u>	<u>15,291,244</u>

Financial Analysis of the Governmental Funds

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

Governmental Funds

The focus on the District's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. In particular, fund balance serves as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The general fund is the major operating fund of the District. At the end of the current fiscal year fund balance increased by \$3,333,074 from \$4,553,617 to \$7,886,691. This leaves the general fund with a fund balance to revenue ratio of 13%, which is above the Board Policy which mandates a 10% ratio. The increase is a result of prudent financial planning and fiscal management. In the coming year and a half, the district will open one new elementary school, one new high school and various other new facilities. All the operating costs of these new facilities must be paid from general fund operating dollars.

The Bond Redemption Debt Service Fund remains in strong financial condition. The fund has an ample fund balance to make the December 1st principal and interest payments on the District's voter approved debt.

The Capital Reserve Fund recognized \$1,024,000 in lease proceeds to fund a numerous District-wide projects including the purchase and relocation of portable classrooms, HVAC upgrades and phone upgrades.

General Fund Budgetary Highlights

The Falcon School District's budget is prepared according to Colorado law. The original budget must be approved by the Board of Education prior to July 1st. The original budget is prepared based on a conservative estimate of student enrollment growth. If additional pupils are funded based on the actual pupil count in October, additional positions and additional expenditures are added to the budget. The original budget for fiscal year 2004-2005 was approved by the Board of Education on June 24, 2004 and the final amended budget was approved by the Board of Education on October 7, 2004.

Some significant budget highlights include:

- Lease-purchase in the amount of approximately \$1,024,000 for the purchase of buses, maintenance equipment and technology equipment.
- For the first time in history, administration voluntarily discussed wage and benefit conditions with all employee group representatives. The outcome was overwhelmingly approved by the employees. Moreover, the agreement means D-49 should be able to continue to attract and retain the best teachers in the Pikes Peak area.
- The budget continues to allocate money to keep the district on an aggressive text book replacement schedule.

- The budget continues to provide for an expansion in our special education program. These added expenditures should allow us to continue to be viewed as one of the more proactive special education districts in the area.
- Even with the small increase in state funding and the challenge to meet the needs of every child, the tax rate in the district continues to be at its lowest rate in over ten years.

Capital Assets and Debt Administration

The Falcon School District's investment in capital assets for governmental and business type activities as of June 30, 2005, net of accumulated depreciation follows:

Investments in Capital Assets

	Balance @ 6-30-04	Balance @ 6-30-05
Governmental Activities:		
Land and Site Improvements	\$ 3,335,336	\$ 3,335,336
Buildings & Improvements	83,702,877	83,964,662
Equipment	5,385,831	6,094,565
Less accumulated depreciation	<u>(14,490,336)</u>	<u>(17,869,019)</u>
Total capital assets, net	<u>\$77,933,708</u>	<u>\$ 75,525,544</u>
Business-type Activities:		
Equipment	831,876	868,386
Less accumulated depreciation	<u>(296,903)</u>	<u>(360,324)</u>
Total capital assets, net	<u>\$ 1,128,779</u>	<u>\$ 1,228,710</u>

This investment in capital assets includes land, buildings, equipment and vehicles. Significant purchases during 2004-2005 include buses, grounds and maintenance equipment and technology equipment.

Long-Term Debt

As of June 30, 2005, the District had outstanding debt of \$72,311,165. All of this amount is general obligation bonded debt and accrued interest on this debt, which is backed by the full faith and credit of the District. During 2004-2005 the District entered into a lease-purchase agreement in the amount of approximately \$1,024,000 for the equipment purchases noted above. The Falcon School District maintains issuer credit ratings with two agencies: Moody's Investors Services, Inc. A1, and Standard and Poor's Rating Services A+.

Economic Factors and Next Year's Budget

- The local, state, and federal economy has begun to improve, with home sales in the District continuing to increase. The District's assessed value increased over 25% in November 2005 from the prior year to a total of \$452,258,300.
- State aid for K-12 education will likely provide more than enrollment growth plus inflation funding for next year.
- State legislators continue to discuss a possible state wide referendum to overturn Amendment 23. This could possibly cost the District over \$700,000 annually in state aid.
- As a result of voters approving the November 2005 Mill Levy Override the district will engage in a high volume of constructions projects, totaling \$80.5 million. The majority of this new buildings and school expansions will be constructed in 2005-2006.
- The District must continue to work proactively with developers, the City of Colorado Springs, and El Paso County to confront the enrollment growth issue. Falcon School District has been the fastest growing school district in the state, based on enrollment, on a percentage basis, for the last several years.
- The District continues to work with Charter School. Currently, the District has one charter school. The District is in the process of negotiations with two prospective charter schools which plan to open in Fall 2006. The current charter school is shown as a component unit in the Statement of Net Assets and Statement of Activities.
- The District ended the 2004-2005 school year with more than a 10% revenue to fund balance ratio, as mandated by school Board Policy. This equates to approximately one month of expenditures.

Requests for Information

The financial report is designed to provide a general overview of Falcon School District's finances for those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Lisa Schneider
Chief Financial Officer
Falcon School District 49
10850 E. Woodmen Road
Falcon, CO 80831

AUDITORS' ANNUAL REPORT



Board of Education
Falcon School District 49
Falcon, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Falcon School District 49, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the District, as listed in the table of contents. These financial statements are the responsibility of the Falcon School District 49'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, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Falcon School District 49, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006, on our consideration of the Falcon School District 49's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Falcon School District 49's basic financial statements. The combining and individual fund statements and 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 20, 2006

BASIC FINANCIAL STATEMENTS

FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and investments (unrestricted) (Note 2)	\$ 18,798,792	\$ 2,504,428	\$ 21,303,220	\$ 292,074
Restricted cash and investments	265,708	-	265,708	-
Receivables	1,380,956	99,166	1,480,122	5,552
Internal balances	1,992,299	(1,992,299)	-	-
Inventories	-	53,250	53,250	-
Deferred costs	425,531	-	425,531	-
Capital assets, not being depreciated (Note 3)	3,335,336	-	3,335,336	-
Capital assets, depreciated, net (Note 3)	72,190,208	508,063	72,698,271	-
Total assets	98,388,830	1,172,608	99,561,438	297,626
LIABILITIES				
Accounts payable and other current liabilities	935,444	14,225	949,669	7,088
Accrued compensation payable (Note 5)	6,116,799	60,863	6,177,662	73,007
Deferred revenues	1,200,620	-	1,200,620	748
Accrued interest payable	259,791	-	259,791	-
Long-term liabilities (Note 6):				
Portion due or payable within one year	2,976,919	-	2,976,919	-
Portion due or payable after one year	69,269,081	44,404	69,313,485	-
Total liabilities	80,758,654	119,492	80,878,146	80,843
NET ASSETS				
Invested in Capital Assets Net of Related Debt	4,428,699	508,063	4,936,762	-
Restricted for:				
TABOR (emergencies)	1,850,000	-	1,850,000	28,717
Multi-year obligation	806,000	-	806,000	-
Debt service	5,315,871	-	5,315,871	-
Construction	1,000	-	1,000	-
Capital purposes	624,924	-	624,924	-
Risk management	16,738	-	16,738	-
Unrestricted	4,586,944	545,053	5,131,997	188,066
Total net assets	\$ 17,630,176	\$ 1,053,116	\$ 18,683,292	\$ 216,783

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:							
Instruction	\$ 39,283,826	\$ 543,857	\$ 3,201,148	\$ (35,538,821)	\$ -	\$ (35,538,821)	\$ -
Instructional support	2,260,942	10,545	-	(2,250,397)	-	(2,250,397)	-
General administration	461,864	25,000	-	(436,864)	-	(436,864)	-
School administration	3,316,018	-	-	(3,316,018)	-	(3,316,018)	-
Business services	598,267	-	-	(598,267)	-	(598,267)	-
Maintenance and operations	5,468,364	-	-	(5,468,364)	-	(5,468,364)	-
Transportation	3,163,788	-	625,896	(2,537,892)	-	(2,537,892)	-
Central services	4,388,977	-	-	(4,388,977)	-	(4,388,977)	-
Other services	10,680	-	-	(10,680)	-	(10,680)	-
Interest expense	3,859,066	-	-	(3,859,066)	-	(3,859,066)	-
Total governmental activities	62,811,792	579,402	3,827,044	(58,405,346)	-	(58,405,346)	-
Business-type activities:							
Food services	2,108,175	1,647,746	534,505	-	74,076	74,076	-
Total business-type activities	2,108,175	1,647,746	534,505	-	74,076	74,076	-
Total primary government	\$ 64,919,967	\$ 2,227,148	\$ 4,361,549	(58,405,346)	74,076	(58,331,270)	-
Component Unit Activities	\$ 862,159	\$ 74,890	\$ -				(787,269)
General revenues:							
Property taxes				15,551,939	-	15,551,939	-
Specific Ownership Taxes				2,213,671	-	2,213,671	-
State equalization				43,022,750	-	43,022,750	871,504
Investment earnings				178,564	-	178,564	2,833
Miscellaneous revenues				756,394	-	756,394	40,647
Total general revenues and transfers				61,723,318	-	61,723,318	914,984
Change in net assets				3,317,972	74,076	3,392,048	127,715
Net assets, July 1				14,312,204	979,040	15,291,244	89,068
Net assets, June 30				\$ 17,630,176	\$ 1,053,116	\$ 18,683,292	\$ 216,783

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Bond Redemption	Grant Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 11,413,987	\$ 5,928,604	\$ 1,005,495	\$ 450,706	\$ 18,798,792
Restricted cash and investments	-	-	-	265,708	265,708
Property tax receivable	525,881	282,876	-	-	808,757
Accounts receivable	-	-	571,849	-	571,849
Due from other funds	3,970,575	-	-	15,421	3,985,996
Other assets	-	-	350	-	350
TOTAL ASSETS	\$ 15,910,443	\$ 6,211,480	\$ 1,577,694	\$ 731,835	\$ 24,431,452
LIABILITIES & FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 712,043	\$ -	\$ 67,804	\$ 90,430	\$ 870,277
Accrued salaries & benefits payable	5,983,914	-	132,885	-	6,116,799
Compensated absences payable	65,167	-	-	-	65,167
Due to other funds	-	768,064	1,210,152	15,481	1,993,697
Deferred property tax revenue	228,861	127,545	-	-	356,406
Deferred Revenue - Forward Purchase Agreement	974,287	-	-	-	974,287
Deferred revenue - other	59,480	-	166,853	-	226,333
TOTAL LIABILITIES	8,023,752	895,609	1,577,694	105,911	10,602,966
FUND BALANCE					
Reserved for:					
TABOR (emergencies)	1,850,000	-	-	-	1,850,000
Multi-year obligations	806,000	-	-	-	806,000
Debt service	-	5,315,871	-	-	5,315,871
Construction	-	-	-	1,000	1,000
Capital outlay	-	-	-	624,924	624,924
Risk management	16,738	-	-	-	16,738
Unreserved	5,213,953	-	-	-	5,213,953
TOTAL FUND BALANCE	7,886,691	5,315,871	-	625,924	13,828,486
TOTAL LIABILITIES & FUND BALANCE	\$ 15,910,443	\$ 6,211,480	\$ 1,577,694	\$ 731,835	\$ 24,431,452

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances--governmental funds **\$ 13,828,486**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 75,525,544

Other long-term assets are not available to pay for current period expenditures and are therefore deferred in the governmental funds. 356,406

Other liabilities associated with long-term debt, such as accrued interest payable, are not recorded in the governmental funds but recorded as a liability in the statement of net assets. (259,791)

Long-term liabilities, including bonds payable and bond issuance costs, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

GO Bonds payable	\$ (63,196,879)	
Capital leases payable	\$ (8,325,497)	
Bond Issue Costs	425,531	
Compensated absences	<u>(723,624)</u>	
		<u>(71,820,469)</u>

Total net assets--governmental activities **\$ 17,630,176**

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	General	Bond Redemption	Grant Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 12,533,471	\$ 5,103,523	\$ -	\$ -	\$ 17,636,994
Intergovernmental	44,848,013	-	2,001,781	-	46,849,794
Interest	131,395	36,229	-	10,940	178,564
Other	1,045,351	-	-	290,445	1,335,796
Total revenues	<u>58,558,230</u>	<u>5,139,752</u>	<u>2,001,781</u>	<u>301,385</u>	<u>66,001,148</u>
EXPENDITURES					
Current					
Instruction	30,746,653	-	2,001,781	-	32,748,434
Student support	3,826,072	-	-	-	3,826,072
Instructional staff	2,260,942	-	-	-	2,260,942
General administration	440,356	-	-	-	440,356
School administration	3,316,018	-	-	-	3,316,018
Business services	598,267	-	-	-	598,267
Operations & maintenance	5,560,664	-	-	-	5,560,664
Student transportation	2,691,641	-	-	-	2,691,641
Central support	2,830,344	-	-	-	2,830,344
Other support	10,680	-	-	-	10,680
Capital outlay	-	-	-	1,460,391	1,460,391
Charter School	790,442	-	-	-	790,442
Debt service	-	-	-	-	-
Principal retirement	41,940	1,461,713	-	1,041,253	2,544,906
Interest and fiscal charges	11,137	3,166,968	-	462,325	3,640,430
Total expenditures	<u>53,125,156</u>	<u>4,628,681</u>	<u>2,001,781</u>	<u>2,963,969</u>	<u>62,719,587</u>
Excess of revenues over (under) expenditures	5,433,074	511,071	-	(2,662,584)	3,281,561
OTHER FINANCING SOURCES (USES)					
Capital lease proceeds	-	-	-	1,024,594	1,024,594
Transfers in	-	-	-	2,100,000	2,100,000
Transfers out	(2,100,000)	-	-	-	(2,100,000)
Total other financing sources (uses)	<u>(2,100,000)</u>	<u>-</u>	<u>-</u>	<u>3,124,594</u>	<u>1,024,594</u>
Net change in fund balances	3,333,074	511,071	-	462,010	4,306,155
Fund balances, July 1	<u>4,553,617</u>	<u>4,804,800</u>	<u>-</u>	<u>163,914</u>	<u>9,522,331</u>
Fund balances, June 30	<u>\$ 7,886,691</u>	<u>\$ 5,315,871</u>	<u>-</u>	<u>\$ 625,924</u>	<u>\$ 13,828,486</u>

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Total net change in fund balances--governmental funds \$ 4,306,155

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets eligible for capitalization is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays, less retirements, exceeded depreciation in the period.

Capital outlays	\$ 970,519	
Depreciation expense	<u>(3,378,683)</u>	(2,408,164)

Revenues that do not provide current financial resources are deferred in the governmental funds. This amount represents the change in deferred property taxes. 128,616

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, but the issuance adds to long-term liabilities in the statement of net assets.

Capital Lease	<u>(1,024,594)</u>	(1,024,594)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

GO Bond principal payment	\$ 1,461,713	
COP principal payment	250,000	
Capital Lease principal payment	<u>833,193</u>	2,544,906

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount represents the additional interest reported in the statement of activities. 8,403

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt related items.

GO Bond issue costs, premiums, and refunding loss	(227,039)
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In the statement of activities, certain operating expenses -- compensated absences (sick leave), special termination benefits (early retirement)--are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*). This amount represents the net effect of compensated absences payable on the statement of activities. (10,311)

Change in net assets of governmental activities	<u><u>\$ 3,317,972</u></u>
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The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

	Business Type Activities
	<u>Food Services</u>
	<u>Enterprise Fund</u>
ASSETS	
Current Assets	
Cash & cash equivalents	\$ 2,504,428
Accounts receivable	99,166
Inventories	<u>53,250</u>
Total Current Assets	<u>2,656,844</u>
Noncurrent Assets	
Capital assets	
Property, plant, and equipment (net)	<u>508,063</u>
Total Capital Assets	<u>508,063</u>
Total Assets	<u>3,164,907</u>
LIABILITIES	
Current Liabilities	
Accounts payable	14,225
Accrued salaries payable	60,863
Due to other funds	<u>1,992,299</u>
Total Current Liabilities	2,067,387
Noncurrent Liabilities	
Compensated Absences	<u>44,404</u>
Total Liabilities	<u>2,111,791</u>
NET ASSETS	
Invested in capital assets	508,063
Unrestricted	<u>545,053</u>
Total Net Assets	<u><u>\$ 1,053,116</u></u>

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2005

	Business Type Activities
	<u>Food Services</u> <u>Enterprise Fund</u>
OPERATING REVENUES	
Local sources	\$ 1,647,746
Total operating revenues	<u>1,647,746</u>
OPERATING EXPENSES	
Salaries	703,065
Employee benefits	130,002
Purchased services	56,934
Purchased food	1,077,662
Other expenses	52,088
Indirect costs	25,003
Depreciation expense	63,421
Contingency	<u>-</u>
Total operating expenses	<u>2,108,175</u>
OPERATING INCOME (LOSS)	<u>(460,429)</u>
NON-OPERATING REVENUES	
School lunch and breakfast	443,049
Donated commodities	66,350
State match	25,106
Total non-operating revenues	<u>534,505</u>
Change in net assets	74,076
Net Assets, July 1	<u>979,040</u>
Net Assets, June 30	<u><u>\$ 1,053,116</u></u>

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2005

	Business Type Activities <u>Food Services Enterprise</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 1,647,746
Payments to suppliers	(1,112,669)
Payments to employees	<u>(846,951)</u>
Net Cash Used in Operating Activities	<u>(311,874)</u>
Cash flows from Non-capital Financing Activities	
Due to other funds	1,992,299
National School Lunch and Breakfast	386,524
State reimbursements	<u>25,106</u>
Net Cash Provided by Non-capital Financing Activities	<u>2,403,929</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of equipment	<u>(36,510)</u>
Net Cash Used in Non-capital Financing Activities	<u>(36,510)</u>
Net Increase in Cash and Investments	2,055,545
Cash and Investments, July 1	<u>448,883</u>
Cash and Investments, June 30	<u><u>\$ 2,504,428</u></u>
Reconciliation of Operating Income (loss) to Net Cash	
Provided by (used in) Operating Activities	
Operating income (loss)	\$ (460,429)
Adjustments to Reconcile Operating Income (loss) to Net Cash	
Provided by (used in) Operating Activities	
Depreciation expense	63,421
Donated commodities	66,350
Decrease in inventory	38,634
(Decrease) in accounts payable	(5,966)
(Decrease) in compensated absences	(13,884)
Net Cash Used in Operating Activities	<u><u>\$ (311,874)</u></u>
Non-cash activities	
Donated Commodities	<u><u>\$ 66,350</u></u>

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	Private Purpose Scholarship Fund	Pupil Activity Fund
ASSETS		
Cash & investments	\$ 1,460	\$ 593,540
Total assets	1,460	593,540
LIABILITIES		
Accounts payable	209	
Due to student organizations	-	593,540
Total liabilities	209	593,540
NET ASSETS		
Held in trust for scholarship recipients	1,251	-
Total net assets	\$ 1,251	\$ -

The accompanying notes are an integral part of the basic financial statements.

FALCON SCHOOL DISTRICT 49
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
SCHOLARSHIP TRUST FUND
For the Year Ended June 30, 2005

	Private Purpose Scholarship Trust Fund
ADDITIONS	
Fundraising activities	\$ 455
Total additions	<u>455</u>
DEDUCTIONS	
Scholarships awarded	<u>209</u>
Total deductions	<u>209</u>
Change in net assets	246
Net assets, July 1	<u>1,005</u>
Net assets, June 30	<u><u>\$ 1,251</u></u>

The accompanying notes are an integral part of the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Falcon School District 49, Falcon, Colorado (the District) have been prepared in conformity with Generally Accepted Accounting Principals (GAAP) as established by the Government Accounting Standards Board (GASB).

Falcon School District No. 49 of El Paso County was organized by a vote of qualified electorate during 1889, under the provisions of Colorado Law.

The District operates under an elected Board of Education with five members and provides educational services to approximately 10,680 students.

The District is the lowest level of government, which is considered to be financially accountable over all activities related to public school education in Falcon School District Number 49. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

A. Reporting Entity

Governmental Accounting Standards board (GASB) Statement No. 14, "*The Financial Reporting Entity*" (*GASB No. 14*) describes the financial reporting entity as it relates to governmental accounting. According to this Statement, the financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations whose exclusion from the reporting entity's financial statements would cause those statements to be misleading or incomplete. Any organizations that can be described by these last two items are included with the primary government in the financial statements as component units.

These financial statements present the District and its component units, the Pikes Peak School of Expeditionary Learning (PPSEL) and the El Paso School District Number 49 Building Authority (EPSDBA). PPSEL is shown as a discretely presented component unit and is presented in a separate column in the district-wide financial statements to emphasize that it is legally separate from the District. PPSEL also has a June 30th fiscal year end.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

A. Reporting Entity (continued)

Discretely Presented Component Unit. PPSEL charter school educates children with the district's jurisdiction. A parent group elects members of its governing board. PPSEL provides services primarily to students within the District and it dependent upon the District for the majority of its funding. In addition, the nature and significance of PPSEL's relationship with the district is such that exclusion would cause the District's financial statements to be incomplete, although it is considered a non-major fund for financial reporting purposes. Separate financial statements are not issued for PPSEL.

Blended Component Unit. EPSDBA is governed by a five-member board. Although EPSDBA is legally separate from the District, it is reported as if it were part of the District primary government because its sole purpose is to finance and construct buildings and improvements for Falcon School District Number 49.

This District is not included in any other governmental "reporting entity" as defined in GASB No. 14. As required by accounting principles generally accepted in the USA, these basic financial statements present the District (the primary government) and its component units.

B. Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the District is financially accountable.

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

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

B. Government-Wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental proprietary and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and trust fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund uses the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services or privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

All governmental fund types use the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Property taxes are reported as receivables and deferred revenue when levied and as revenues when due for collection in the following year and determined to be available.

Grants and entitlement revenues are recognized when compliance with matching requirements is met. A receivable is established when the related expenditures exceed revenue receipts.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain accrued sick and personal pay which are accounted for as expenditures when expected to be liquidated with expendable available financial resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary (enterprise and internal service) fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Private-purpose Trust and Agency Funds.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

In the fund financial statements, the District reports the following major governmental funds:

1. General Fund – the general operating fund of the District - used to account for all resources that are not required legally or by sound financial management to be accounted for in another fund.
2. Bond Redemption Debt Service Fund – used to account for the accumulation of resources for, and the payment of, long-term general obligation debt principal, interest, and related costs.
3. Governmental Designated – Purpose Grants Fund – This fund is provided to maintain a separate accounting for federal and state grant funded programs which normally have a different fiscal period than that of the District.

In the fund financial statements, the District reports the following major enterprise fund.

1. The Food Service Enterprise Fund - accounts for the financial activities associated with the District's school lunch program.

Additionally, the District reports the following fund types:

1. The Private-Purpose Trust Funds - account for the activities of various scholarship accounts. The District holds all resources in a purely custodial capacity.
2. The Agency Fund - is used to account for resources used to support each school's student and fundraising activities. The District holds all resources in a purely custodial capacity.

Cash and Investments

The District utilizes the pooled cash concept whereby cash balances of each of the District's funds and component units are pooled and invested by the District. All investments are recorded at fair value. It is the intention of the investment pool to maximize interest income, and securities are selected according to their risk, marketability, and diversification.

For the purpose of the Statement of Cash Flows, cash on hand, cash in the bank and all highly liquid investments with a maturity of three months or less when purchased or subject to withdrawal, are considered to be cash and cash equivalents.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Assets, Liabilities and Fund Balances / Net Assets

Receivables

Property taxes levied in 2004 but not yet available in 2005 are identified as property taxes receivable at June 30, 2005, and are presented net of an allowance for uncollectible taxes. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Inventories

Materials and supplies inventories are stated at cost. Inventories recorded in the Food Services Fund consist of purchased and donated commodities. Purchased inventories are stated at cost. Donated inventories, received at no cost under a program supported by the Federal Government, are recorded at their estimated fair value at the date of receipt.

The cost of all inventories is recorded as an asset when the individual inventory items are purchased, and as an expenditure or expense when consumed.

Capital Assets

Capital assets, which include property, vehicles and equipment, are utilized for general District operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements.

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. When assets used in the operation of the governmental fund types are sold, the proceeds of the sale are recorded as revenues in the appropriate fund. The District does not capitalize interest on the construction of capital assets in governmental funds. However, the District does capitalize interest on the construction of capital assets in business-type activities.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Assets, Liabilities and Fund Balances / Net Assets (continued)

The monetary threshold for capitalization of assets is \$5,000. The District's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets as follows:

<u>Assets</u>	<u>Years</u>
Land Improvements	20
Buildings	40
Building improvements	20
Equipment - office	10
Equipment - technology	5
Equipment – vehicles	10

Depreciation of all capital assets is charged as an expense against their operations. Depreciation is recorded in the year of acquisition.

Deferred Revenues

Deferred revenues include grant funds that have been collected but the corresponding expenditures have not been incurred. Property taxes earned but not available are also recorded as deferred revenue in the fund financial statements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. The District records long-term debt of governmental funds at the face value. The District's general obligation bonds are serviced from property taxes and other revenues of the Debt Service Fund. Capital leases are serviced from property taxes and other revenues of the General Fund and Capital Reserve Fund. The long-term accumulated unpaid accrued sick leave is serviced from property taxes and other revenues by the respective fund type from future appropriations. Debt premiums and issuance costs, are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Assets, Liabilities and Fund Balances / Net Assets (continued)

Compensated Absences

Compensated absences are made up of the following items:

Sick Leave Payable

Employees accrue 10-12 days of sick leave each year dependent upon their contract basis. Sick leave may be accumulated up to a maximum of 120 days. An employee will be reimbursed one-half of the current substitute rate or one half of his/her base daily pay per classification of any unused sick leave days beyond the 120 days annually.

Upon retirement (15 years or more in the Falcon School District and eligible for PERA retirement with at least 5 years of services in the Falcon School District) an employee will be reimbursed at the current substitute rate of pay for their classification, up to a maximum of 120 days.

Vacation Payable

Under the District's policies certain employees earn vacation pay of 10-20 days, based on longevity of service. All unused/accrued vacation is vested at June 30, each year.

Personal Leave

A Teacher or an Employee who works 30 hours or more per week may be absent for two days per year for the purpose of personal leave. Personal days which are not used during the school year may be added to the employee's sick leave days or be reimbursed at the current substitute rate of pay.

Compensated absences are reported as non-current liabilities in the government-wide financial statements. Also, compensated absences are recognized as current salary cost when accrued in the proprietary fund types and when paid in the governmental fund types.

Net Assets / Fund Balance

In the government-wide financial statements, net assets are restricted when constraints placed on the assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Assets, Liabilities and Fund Balances / Net Assets (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Revenues and Expenditures / Expenses

Property Taxes

Mill levy rates are certified by the Board of Education to the county commissioners and treasurer by December 15th each year. Property taxes payable are based on the certified mill levies. Property taxes are levied in arrears and attach as a lien on property on January 1. For example, property taxes paid in calendar 2005 were certified in December 2004 and were available for collection on January 1, 2005.

Property taxes are payable in full by April 30 or in two equal installments due February 28 and June 15. The County bills property owners and collects property taxes for all taxing districts in the County. The property tax receipts collected by the County are generally remitted to the District in the subsequent month.

Specific Ownership Taxes

The county treasurer collects specific ownership taxes on motor vehicles and other personal property. The tax receipts collected by the county treasurer are remitted to the District in the subsequent month. Specific ownership taxes are recognized as revenue when collected by the County.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 **CASH AND INVESTMENTS**

At June 30, 2005, the District had the following cash and investments:

Cash on Hand	\$ 836
Deposits	6,732,129
Investments	<u>15,723,037</u>
Total	<u>\$ 22,456,002</u>

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 21,303,220
Restricted Cash and Investments	265,708
Fiduciary Funds	595,000
Charter School	<u>292,074</u>
Total	<u>\$ 22,456,002</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits. At June 30, 2005 the District and Charter School had deposits of \$6,542,903 and \$217,922, respectively, collateralized with securities held by the financial institutions agent but not in the District's or Charter School's name.

At June 30, 2005, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Local Government Investment Pool	N/A	\$9,670,157
COLOTRUST		
J.P. Morgan U.S. Government	N/A	3,601,034
Money Market Fund		
Fannie Mae	11/30/05	1,548,138
Marshall Prime Money Market Fund	N/A	265,708
Repurchase Agreement	07/01/05	<u>638,000</u>
Total		<u>\$15,723,037</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 **CASH AND INVESTMENTS (continued)**

The District has invested \$9,670,157 in the Colorado Liquid Asset Trust (COLOTRUST), an "AAAM" (Standard and Poor's) rated investment entity established by state statute for local governments in Colorado to pool funds for investment purposes. COLOTRUST operates similarly to a money market fund as all funds are available without limitations on a daily basis and each share is equal in value to \$1.00. The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Subsequently, all securities owned by COLOTRUST are held by the Federal Reserve Bank in an account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury Bills, notes, and repurchase agreements collateralized by U.S. treasury Notes.

The Repurchase Agreement, \$638,000, is collateralized by investments in the Federal National Mortgage Association. The funds are available daily without limitations.

Investments

The District is required to comply with State statutes which specify investment instructions meeting defined rating, maturity, custodial and concentration risk criteria in which local governments may invest, which include:

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Interest Rate Risk – State statutes limit investment in U.S. Agency securities to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk – State statutes limit investments in U.S. Agency securities to the highest rating issued by nationally recognized statistical rating organizations ("NRSROs"). At June 30, 2005, the District's investment in the Federal National Mortgage Association (Fannie Mae) was rated AAA by Standard & Poor's.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 **CASH AND INVESTMENTS (continued)**

State statutes limit investments in money market funds to those with the highest rating issued by NRSROs and with a constant share price, or to money market funds that invest only in specified securities. As of June 30, 2005 the District's investment in the JP Morgan U.S. Government Money Market Fund was AAA by Moody's Investor Services and AAAm by Standard & Poor's. The Marshall Prime Money Market Fund was rated AAA by Fitch.

Concentration of Credit Risk – State statutes do not limit the amount the District may invest in one issuer. At June 30, 2005, the District's investment in Fannie Mae was 10% of the District's total investments.

Restricted Cash and Investment

Cash and investments of \$265,708, representing unspent lease proceeds, have been restricted for equipment and building improvements in the Capital Reserve Fund.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>6-30-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6-30-05</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land and Site Improvements	\$ 3,335,336	\$ -	\$ -	\$ 3,335,336
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital assets not being depreciated:	<u>3,335,336</u>	<u>-</u>	<u>-</u>	<u>3,335,336</u>
Capital assets being depreciated:				
Buildings & Improvements	83,702,877	261,785	-	83,964,662
Equipment	<u>5,385,831</u>	<u>708,734</u>	<u>-</u>	<u>6,094,565</u>
Total Capital assets being depreciated:	<u>89,088,708</u>	<u>970,519</u>	<u>-</u>	<u>90,059,227</u>
Less accumulated depreciation for:				
Buildings & Improvements	12,288,071	2,822,821	-	15,110,892
Equipment	<u>2,202,265</u>	<u>555,862</u>	<u>-</u>	<u>2,758,127</u>
Total accumulated depreciation for:	<u>14,490,336</u>	<u>3,378,683</u>	<u>-</u>	<u>17,869,019</u>
Total capital assets, being depreciated, net	<u>74,598,372</u>	<u>(2,408,164)</u>	<u>-</u>	<u>72,190,208</u>
Governmental Activities capital assets, net	<u>\$77,933,708</u>	<u>\$ (2,408,164)</u>	<u>\$ -</u>	<u>\$ 75,525,544</u>
Business-type Activities:				
Capital assets being depreciated:				
Equipment	<u>831,876</u>	<u>36,510</u>	<u>-</u>	<u>868,386</u>
Less accumulated depreciation for:				
Equipment	<u>296,903</u>	<u>63,421</u>	<u>-</u>	<u>360,323</u>
Business-type Activities: capital assets, net	<u>\$ 534,973</u>	<u>\$ (26,911)</u>	<u>\$ -</u>	<u>\$ 508,063</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3 **CAPITAL ASSETS (continued)**

Business -Type Activities:

Depreciation expense was charged to programs of the District as follows:

Governmental Activities:

Instruction	\$2,699,009
General Administration	21,508
Operation and Maintenance	87,777
Student Transportation	472,147
Central Support	<u>98,242</u>

Total Depreciation Expense –Governmental Activities	<u>\$3,378,683</u>
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Business - Type Activities:

Food Services	<u>\$ 63,421</u>
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NOTE 4 **INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS**

Fund	Due to	Due from
General Fund	\$ 3,970,575	\$ -
Bond Redemption Fund	-	768,064
Special Revenue Fund:		
Grants	-	1,210,152
Capital Reserve	15,421	60
Capital Projects:		
Building (Fund 45)		15,421
Nutrition Services	<u>-</u>	<u>1,992,299</u>
	<u>\$ 3,985,996</u>	<u>\$ 3,985,996</u>

Interfund Receivables and Payables

During the year, the General Fund covered operating expenditures for the above mentioned funds. Balances are routinely cleared as a matter of practice. In addition, the capital reserve fund covered minor expenditures for the building fund, which need to be repaid. These amounts are expected to be paid back within one year.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 **INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS (continued)**

Transfers

During the year ended June 30, 2005, the General Fund made a transfer of \$2,100,000 to the Capital Reserve Fund as required by State statute. The District is required to allocate \$268 per funded pupil for insurance and capital expenditures.

NOTE 5 **ACCRUED SALARIES & BENEFITS**

Salaries and benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2005, were \$6,177,662 and \$73,007 for the District and charter schools, respectively. The accrued compensation is reflected as a liability in the accompanying financial statements.

At June 30, 2005, the District has recorded a liability of \$65,167 for unpaid compensated absence due to retired teachers. Accordingly, to compensated absences payable is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6 **LONG TERM LIABILITIES**

The District has entered into capital lease agreements to purchase property, portable buildings and equipment. The lease terms range from five to fifteen years with annual interest rates from 4.0% to 7.0%.

Capital lease obligations for the fiscal year ended June 30, 2005, are comprised of the following:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,136,090	\$ 435,755	\$ 1,571,845
2007	1,064,786	375,499	1,440,285
2008	1,087,751	320,807	1,408,558
2009	979,841	263,735	1,243,576
2010	1,031,493	212,053	1,243,546
2011-2015	2,624,719	410,091	3,034,810
2016-2017	<u>400,815</u>	<u>30,104</u>	<u>430,919</u>
TOTAL	<u>\$ 8,325,495</u>	<u>\$ 2,048,044</u>	<u>\$ 10,373,539</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 **LONG TERM LIABILITIES (continued)**

Certificate of Participation

In addition, the District has a lease arrangement with a component unit, the El Paso County School District 49 Building Authority, a non-profit corporation, for the lease of a building. The lease is on a year-to-year basis. The lease was paid in full during the year ended June 30, 2005.

2002 General Obligation Refunding Bonds interest due semi-annually with rates ranging from 2.40% to 4.20%, principal due annually through 2015 in payments of \$10,000 to \$1,795,000. \$10,460,000 of the bonds issued were General Obligation Refunding Bonds, and \$200,000 of the bonds issued were General Obligation Bonds.

Additionally, the bonds bear "B" interest registered coupons yielding between 1.75% to 3.80% payments due annually through 2009 in amounts of \$156,570 to \$268,023.

2002 General Obligation Bonds interest due semi-annually with rates ranging from 4.00% to 5.75%, principal due annually through 2021 in payments of \$5,000 to \$2,920,000.

Additionally, the Bonds bear "B" interest registered coupons yielding between 3.00% to 4.92%, payments due annually through 2011 in amounts of \$125,000 to \$930,000.

1999 General Obligation Bonds interest due semi-annually with rates ranging from 3.25% to 6.0%, principal due annually through 2018 in payments of \$45,000 to \$1,840,000.

1996 General Obligation Bonds interest due semi-annually with rates ranging from 4.0% to 6.5%, principal due annually through 2015 in payments of \$100,000 to \$1,790,000.

1991 General Obligation Refunding Bonds interest due semi-annually with rates ranging from 5.00% to 6.75%, principal due annually through 2004 in payments of \$535,000 to \$815,000. These bonds were paid in full during the year ended June 30, 2005.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 **LONG TERM LIABILITIES (continued)**

Following is a summary of debt service requirements to maturity of all bond issues:

Year Ending:			
June 30,	Principal	Interest	Total
2006	\$ 1,762,245	\$ 3,117,496	\$ 4,879,741
2007	2,331,637	3,114,155	5,445,791
2008	2,674,341	3,055,219	5,729,560
2009	3,319,458	3,061,062	6,380,520
2010	3,500,217	2,984,339	6,484,556
2011-2015	22,443,903	11,063,115	33,507,019
1015-2020	20,355,000	4,481,025	24,836,025
2021-2025	5,690,001	473,550	6,163,551
	<u>\$ 62,076,801</u>	<u>\$ 31,349,961</u>	<u>\$ 93,426,763</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 **LONG TERM LIABILITIES (continued)**

Following is a summary of the changes in long-term obligations:

	Balances 6-30-04	Additions	Deletions	Balances 6-30-05	Due Within One Year
<u>Governmental Activities:</u>					
Series 2002 GO Refunding Bond	\$ 10,660,000	\$ -	\$ -	\$ 10,660,000	\$ -
Series 2002 GO B Coupons	946,233	-	152,851	793,382	147,728
Series 2002 GO Refunding Bond	27,995,000	-	5,000	27,990,000	100,000
Series 2002 GO B Coupons	3,072,281	-	198,862	2,873,419	189,517
Series 1999 GO Bond	15,940,000	-	530,000	15,410,000	315,000
Series 1996 GO Bond	4,480,000	-	130,000	4,350,000	1,010,000
Series 1991 GO Bond	445,000	-	445,000	-	-
Series 1985 COPs	250,000	-	250,000	-	-
Deferred Amounts:					
Bond Premium	2,741,543	-	110,941	2,630,602	-
Loss on Bond Refunding	(1,647,845)	-	(137,321)	(1,510,524)	-
TOTAL	64,882,212	-	1,685,333	63,196,879	1,762,245
Capital Lease Obligations	8,134,096	1,024,594	833,193	8,325,497	1,136,090
Compensated Absences	713,313	10,311	-	723,624	78,584
Total Governmental Activities	\$ 73,729,621	\$ 1,034,905	\$ 2,518,526	\$ 72,246,000	\$ 2,976,919
<u>Business-type Activities:</u>					
Compensated Absences	\$ 58,287	\$ -	\$ 13,883	\$ 44,404	\$ -

Compensated absences of the governmental activities are expected to be liquidated with revenues of the General Fund.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 **LONG TERM LIABILITIES (continued)**

Defeased Debt

In prior years, the District defeased \$10,460,000 of the General Obligation Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The outstanding balance of defeased GO Bond debt at June 30, 2005 was \$10,460,000.

NOTE 7 **DEFINED BENEFIT PENSION PLAN**

Plan Description – The District contributes to the Combined State and School Division Trust Fund (CSSDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). CSSDTF provides retirement and disability, annual increases, and death benefits for members of their beneficiaries. All employees of the District are members of the CSSDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature.

PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for CSSDTF. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy – Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of the plan members and the District are established under Title 24, Article 51, and Part 4 of the CRS, as amended. The contribution rate for members is 8% and for the District is 10.15% of covered salary. A portion of the District's contribution (1.02% of covered salary) is allocated for the Health Care Trust Fund (See Note 8). The District's contributions to CSSDTF for the years ending June 30, 2005, 2004, and 2003 were \$3,642,999, \$3,280,653 and \$2,442,083 respectively, equal to the required contributions for each year.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 **POSTEMPLOYMENT HEALTH-CARE BENEFITS**

The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer post-employment HealthCare plan administered by PERA. The HCTF provides a HealthCare premium subsidy to PERA participating benefits recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by writing to PERA of Colorado at 1300 Logan Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 800-759-PERA (7372).

Funding Policy

The District was required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, and Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. The District's contributions to HCTF for the years ending June 30, 2005, 2004, and 2003 were \$367,079, \$355,829 and \$410,270 respectively, equal to their required contributions for each year.

NOTE 9 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past four fiscal years.

NOTE 10 **COMMITMENTS AND CONTINGENCIES**

Claims and Judgments

The District participates in a number of Federal and State programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2005, significant amounts of grant expenditures have not been audited but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the District.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 **COMMITMENTS AND CONTINGENCIES (continued)**

TABOR Amendment

In November 1992, Colorado voters approved Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations, which apply to the State of Colorado and local governments. It requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any entity.

Spending and revenue limits are determined based on the prior fiscal year's spending adjusted for inflation in the prior calendar year plus annual increases in funded student enrollment. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions.

On November 7, 2001 the registered voters approved a ballot resolution authorizing Falcon School District Number 49 to collect, retain and expend all revenues from any source provided that no property tax mill levy be increased or any new tax be imposed.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future years. TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be three percent or more of qualifying expenditures. As of June 30, 2005 the District reserved \$1,850,000 in the General Fund for this purpose.

Contingency

The District recently underwent an audit by the Colorado Department of Education (CDE) relating to the District's state equalization entitlement for the years 2002/2003, 2003/2004 and 2004/2005 and the pupil transportation reimbursement claim and English Language Proficiency Act claim for the years 2001/2002, 2002/2003 and 2003/2004. Once the audit is complete it is probable that the District will be required to reimburse the CDE for exceptions found during the audit. The potential liability is estimated at \$592,000.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 11 **FORWARD AND DELIVERY INVESTMENT AGREEMENT**

In December 2002, the District's General Fund received payment of \$1,240,000 pursuant to a forward delivery agreement. In exchange for this amount, the District agreed to make payments into a bank trust account (Bank One Trust Company) from its Debt Service Fund revenue for subsequent purchases of investment securities from a third party (JP Morgan Chase Bank). The securities mature at such times as are required for meeting the District's debt service payment obligations over the fourteen-year contract period. Should the District terminate the agreement, it would be obligated to repay a portion of the \$1,240,000 received to compensate for loss of economic benefits based on market conditions existent at the time the agreement is dissolved.

The amount received under this agreement is being amortized over the term of the agreement for GAAP purposes, rather than in full in the year ended June 30, 2003 with the unamortized balance reflected as deferred revenue. The following GAAP-basis schedule shows the amounts of revenue recognized and the remaining balances treated as deferred revenue as of and for the year ended June 30, 2005:

	<u>Revenue Recognized</u>	<u>Balance (Deferred Revenue)</u>
Fiscal Year Ending June 30, 2005	\$ 88,571	\$ 974,287

NOTE 12 **RESTATEMENT**

The District combined the Insurance Reserve Fund with the General Fund at July 1, 2004. As a result the beginning net assets/fund balances have been restated.

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fund Balance as Originally Stated	\$ 4,551,178	\$ 2,439
Adjustment	<u>2,439</u>	<u>(2,439)</u>
Fund Balance as Restated	<u>\$ 4,553,617</u>	<u>\$ -</u>

REQUIRED SUPPLEMENTARY INFORMATION

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Over / (Under)
REVENUES				
<u>Local Sources:</u>				
Property taxes	\$ 9,159,247	\$ 9,159,247	\$ 10,287,460	\$ 1,128,213
Specific ownership taxes	1,836,037	1,816,037	2,213,671	397,634
Earnings on Investments	50,000	50,000	131,395	81,395
Delinquent Taxes and Interest	-	-	32,340	32,340
Tuition	-	195,000	554,402	359,402
Other	765,000	570,000	490,949	(79,051)
<u>State Sources:</u>				
Equalization	41,468,585	42,919,034	43,022,750	103,716
Transportation	607,500	607,500	625,896	18,396
Vocational Education	40,000	40,000	145,741	105,741
Special education	625,000	625,000	675,440	50,440
ELPA	-	-	6,568	6,568
Gifted and Talented	55,000	55,000	60,253	5,253
Medicaid	20,000	20,000	51,585	31,585
ROTC	-	-	8,895	8,895
<u>Federal Sources:</u>				
Impact Aid	175,000	175,000	250,885	75,885
Total Revenues	<u>54,801,369</u>	<u>56,231,818</u>	<u>58,558,230</u>	<u>2,326,412</u>
EXPENDITURES				
<u>Instructional</u>	<u>30,631,826</u>	<u>31,185,346</u>	<u>30,746,653</u>	<u>(438,693)</u>
<u>Support Services</u>				
Student support	3,327,683	3,385,399	3,826,072	440,673
Instructional staff	2,290,780	2,290,780	2,260,942	(29,838)
General administration	477,428	503,497	440,356	(63,141)
School administration	3,294,509	3,329,074	3,316,018	(13,056)
Business services	708,777	708,777	598,267	(110,510)
Operations and maintenance	5,849,541	5,875,076	5,560,664	(314,412)
Student transportation	2,507,818	2,539,568	2,691,641	152,073
Central support	2,929,972	2,962,744	2,830,344	(132,400)
Other support	20,026	20,026	10,680	(9,346)
Facilities acquisition/construction	101,000	101,000	-	(101,000)
Charter Schools	-	-	790,442	790,442
Debt service				
Principal retirement	10,965	10,965	41,940	30,975
Interest and fiscal charges	-	-	11,137	11,137
Total Support Services	<u>21,518,499</u>	<u>21,726,906</u>	<u>22,378,503</u>	<u>651,597</u>
Reserves	<u>1,799,145</u>	<u>1,822,003</u>	<u>-</u>	<u>(1,822,003)</u>
Total Expenditures	<u>53,949,470</u>	<u>54,734,255</u>	<u>53,125,156</u>	<u>(1,609,099)</u>
Revenues Over (Under) Expenditures	851,899	1,497,563	5,433,074	3,935,511
<u>Other Financing Sources (Uses)</u>				
Transfers In	495,000	495,000	450,000	(45,000)
Transfers Out	(2,464,796)	(2,632,600)	(2,550,000)	82,600
Total Other Financing Sources (Uses)	<u>(1,969,796)</u>	<u>(2,137,600)</u>	<u>(2,100,000)</u>	<u>37,600</u>
Revenues and Other Financing Sources over (Under)				
Expenditures and Other Uses	(1,117,897)	(640,037)	3,333,074	3,973,111
Fund balance, July 1	\$ 4,568,563	\$ 4,568,563	\$ 4,553,617	(14,946)
Fund balance, June 30	<u>\$ 3,450,666</u>	<u>\$ 3,928,526</u>	<u>\$ 7,886,691</u>	<u>\$ 3,958,165</u>

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
DESIGNATED PURPOSE GRANTS FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Over / (Under)
REVENUES				
State sources	\$ 146,532	\$ 466,612	\$ 434,335	\$ (32,277)
Federal sources	<u>1,251,099</u>	<u>1,251,099</u>	<u>1,567,446</u>	<u>316,347</u>
TOTAL REVENUES	<u>1,397,631</u>	<u>1,717,711</u>	<u>2,001,781</u>	<u>284,070</u>
EXPENDITURES				
Instruction	<u>1,397,631</u>	<u>1,717,711</u>	<u>2,001,781</u>	<u>284,070</u>
TOTAL EXPENDITURES	<u>1,397,631</u>	<u>1,717,711</u>	<u>2,001,781</u>	<u>284,070</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditor's Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FALCON SCHOOL DISTRICT 49
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2005

NOTE 1 **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CAPS)**

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles for account purposes, except the proprietary fund type, which budgets on a non-GAAP basis for accounting purposes.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Chief Financial Officer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public notices are released to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. The Chief Financial Officer is authorized to transfer budgeted amounts between categories within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration should be employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Funds, and Trust and Agency Funds.

All appropriations lapse at the end of each fiscal year. Revisions and/or supplemental appropriations that alter the total expenditures of any fund must be approved by the Board of Education.

Budgetary amounts reported in the accompanying basic financial statements are as originally adopted and amended by the Superintendent and/or the Board of Education throughout the year.

Legal Compliance

For the year ended June 30, 2005, the Designated Purpose Grants Fund, Capital Reserve Project Fund, and Pupil Activity Fund expenditures exceeded the budgeted amounts by \$284,070, \$87,983, and \$45,684 respectively, because additional grant and fees in lieu of land revenue and related expenditures were under budgeted.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Reserve Fund – This fund is authorized by Colorado School Law and is funded by allocated revenues from the General Fund. It is used to fund ongoing capital needs such as site acquisition, building additions and equipment purchases.

Capital Projects Fund

Capital Projects Funds account for financial resources created by the issuance of bonded indebtedness to be used for major Capital Projects.

Building Fund – This fund accounts for specific construction projects funded by the sale of general obligation bonds. Separate funds are utilized to account for specific bond authorizations.

Capital Reserve Project Fund – This fund is to account for City and County impact fees in lieu of land dedication. The resources are to be used for the acquisition or construction of major capital facilities.

FALCON SCHOOL DISTRICT 49
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Capital Reserve	Capital Projects Capital Reserve	Building Capital Projects	Total NonMajor Governmental Funds
ASSETS				
Cash and investments	\$ 434,285	\$ 1,000	\$ 15,421	\$ 450,706
Restricted cash and investments	265,708	-	-	265,708
Due from other funds	15,421	-	-	15,421
Total assets	<u>715,414</u>	<u>1,000</u>	<u>15,421</u>	<u>731,835</u>
LIABILITIES				
Accounts payable	90,430	-	-	90,430
Due to other funds	60	-	15,421	15,481
Total liabilities	<u>90,490</u>	<u>-</u>	<u>15,421</u>	<u>105,911</u>
FUND BALANCE				
Reserved for Construction	-	1,000	-	1,000
Capital Outlay	624,924	-	-	624,924
Total reserved fund balance	<u>624,924</u>	<u>1,000</u>	<u>-</u>	<u>625,924</u>
Total fund balances	<u>624,924</u>	<u>1,000</u>	<u>-</u>	<u>625,924</u>
Total liabilities and fund balances	<u>\$ 715,414</u>	<u>\$ 1,000</u>	<u>\$ 15,421</u>	<u>\$ 731,835</u>

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2005

	Capital Reserve	Capital Projects Capital Reserve	Building Capital Projects	Total NonMajor Governmental Funds
REVENUES				
Interest	\$ 10,940	\$ -	\$ -	\$ 10,940
Miscellaneous	1,723	237,983	50,739	290,445
Total revenues	<u>12,663</u>	<u>237,983</u>	<u>50,739</u>	<u>301,385</u>
EXPENDITURES				
Capital Outlay	746,905	237,983	475,503	1,460,391
Debt service				
Principal Retirements	1,128,596	-	-	1,128,596
Interest and Fiscal Charges	<u>374,982</u>	<u>-</u>	<u>-</u>	<u>374,982</u>
Total expenditures	<u>2,250,483</u>	<u>237,983</u>	<u>475,503</u>	<u>2,963,969</u>
REVENUES OVER (UNDER) EXPENDITURE	(2,237,820)	-	(424,764)	(2,662,584)
OTHER FINANCING SOURCES				
Capital equipment lease proceeds	1,024,594	-	-	1,024,594
Transfers In	<u>2,100,000</u>	<u>-</u>	<u>-</u>	<u>2,100,000</u>
Total other financing sources	<u>3,124,594</u>	<u>-</u>	<u>-</u>	<u>3,124,594</u>
Net change in fund balance	886,774	-	(424,764)	462,010
FUND BALANCE (DEFICIT), JULY 1	<u>(261,850)</u>	<u>1,000</u>	<u>424,764</u>	<u>163,914</u>
FUND BALANCE, JUNE 30	<u>\$ 624,924</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 625,924</u>

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
BUILDING (45) - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Over / (Under)
REVENUES				
Other Revenues	\$ -	\$ -	\$ 50,739	\$ 50,739
Interest	12,500	62,510	-	(62,510)
TOTAL REVENUES	<u>12,500</u>	<u>62,510</u>	<u>50,739</u>	<u>(11,771)</u>
EXPENDITURES				
Equipment and Other Services	362,500	487,274	475,503	(11,771)
TOTAL EXPENDITURES	<u>362,500</u>	<u>487,274</u>	<u>475,503</u>	<u>(11,771)</u>
Net change in fund balance	(350,000)	(424,764)	(424,764)	-
FUND BALANCE, JULY 1	350,000	424,764	424,764	-
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
BOND REDEMPTION DEBT SERVICE FUND
For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Variance Over / (Under)
REVENUES			
Property Taxes	\$ 4,892,380	\$ 5,103,523	\$ 211,143
Specific Ownership Taxes	700,000	-	(700,000)
Interest	20,000	36,229	16,229
TOTAL REVENUES	<u>5,612,380</u>	<u>5,139,752</u>	<u>(472,628)</u>
EXPENDITURES			
Debt service			
Principal Retirement	1,110,000	1,461,713	351,713
Interest and Fiscal Charges	3,513,605	3,166,968	(346,637)
Contingency	160,458	-	(160,458)
TOTAL EXPENDITURES	<u>4,784,063</u>	<u>4,628,681</u>	<u>(155,382)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	828,317	511,071	(317,246)
OTHER FINANCING USES			
Transfers Out	(725,000)	-	725,000
Net change in fund balance	<u>103,317</u>	<u>511,071</u>	<u>407,754</u>
FUND BALANCE, JULY 1	<u>4,552,948</u>	<u>4,804,800</u>	<u>251,852</u>
FUND BALANCE, JUNE 30	<u>\$ 4,656,265</u>	<u>\$ 5,315,871</u>	<u>\$ 659,606</u>

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
CAPITAL RESERVE - SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Over/(Under)
REVENUES				
Local Grant - Development Agreement	\$ -	\$ 75,000	\$ -	\$ (75,000)
Interest Earnings	92,667	6,000	10,940	4,940
Other	300,000	-	1,723	1,723
Total Revenue	<u>392,667</u>	<u>81,000</u>	<u>12,663</u>	<u>(68,337)</u>
EXPENDITURES				
Capital Outlay:				
Buildings	57,500	61,064	73,570	12,506
Equipment	478,250	494,530	309,414	(185,116)
Vehicles	462,544	569,000	363,921	(205,079)
Total capital outlay	<u>998,294</u>	<u>1,124,594</u>	<u>746,905</u>	<u>(377,689)</u>
Debt service				
Principal Retirements	1,083,193	1,083,193	1,128,596	45,403
Interest and Fiscal Charges	460,698	460,698	374,982	(85,716)
Appropriated Reserves	76,266	80,055	-	(80,055)
Total Expenditures	<u>2,618,451</u>	<u>2,748,540</u>	<u>2,250,483</u>	<u>(498,057)</u>
Revenue over (under) expenditures	(2,225,784)	(2,667,540)	(2,237,820)	429,720
OTHER FINANCING SOURCES				
Capital equipment lease proceeds	-	1,111,261	1,024,594	(86,667)
Transfers In	1,969,796	2,462,600	2,100,000	(362,600)
Total Other Financing Sources	<u>1,969,796</u>	<u>3,573,861</u>	<u>3,124,594</u>	<u>(449,267)</u>
Net change in fund balance	(255,988)	906,321	886,774	(19,547)
FUND BALANCE (DEFICIT), JULY 1	<u>260,698</u>	<u>(898,302)</u>	<u>(261,850)</u>	<u>636,452</u>
FUND BALANCE, JUNE 30	<u>\$ 4,710</u>	<u>\$ 8,019</u>	<u>\$ 624,924</u>	<u>\$ 616,905</u>

See the accompanying Independent Auditor's Report.

FALCON SHOOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BLANCES - BUDGET (GAAP BASIS) AND ACTUAL
CAPITAL RESERVE FUND - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Variance Over/(Under)
REVENUES			
Fees in lieu of land	\$ 150,000	\$ 237,983	\$ 87,983
EXPENDITURES			
Capital Outlay	150,000	237,983	87,983
Total Expenditures	150,000	237,983	87,983
Net change in fund balance	-	-	-
FUND BALANCE, JULY 1	-	1,000	1,000
FUND BALANCE, JUNE 30	\$ -	\$ 1,000	\$ 1,000

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
FOOD SERVICE FUND
Year Ended June 30, 2005

	Original and Final Budget	Actual	Variance Over / (Under)
OPERATING REVENUES			
Local sources			
Charges for services	\$ 1,507,000	\$ 1,746,912	\$ 239,912
Total operating revenues	1,507,000	1,746,912	239,912
OPERATING EXPENSES			
Salaries	650,000	703,065	53,065
Employee benefits	162,000	130,002	(31,998)
Purchased services	71,000	56,934	(14,066)
Purchased food	908,500	1,077,662	169,162
Other expenses	228,500	52,088	(176,412)
Indirect Costs	25,000	25,003	3
Depreciation expense	110,500	63,421	(47,079)
Contingency	745,220	-	(745,220)
Total operating expenses	2,900,720	2,108,175	(792,545)
Operating income (loss)	(1,393,720)	(361,263)	1,032,457
NON-OPERATING REVENUES			
Federal sources			
National school lunch program	319,970	343,883	23,913
Commodity contributions	170,000	66,350	(103,650)
State match	3,000	25,106	22,106
Total non-operating revenues	492,970	435,339	(57,631)
Change in net assets	(900,750)	74,076	974,826
Net Assets, July 1	900,750	979,040	78,290
Net Assets, June 30	\$ -	\$ 1,053,116	\$ 1,053,116

See the accompanying Independent Auditor's Report.

FALCON SCHOOL DISTRICT 49
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
PUPIL ACTIVITY AGENCY FUND
For the Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
ASSETS				
Cash and cash equivalents	\$ 443,749	\$ 2,051,761	\$ 1,901,970	\$ 593,540
TOTAL ASSETS	<u>\$ 443,749</u>	<u>\$ 2,051,761</u>	<u>\$ 1,901,970</u>	<u>\$ 593,540</u>
LIABILITIES				
Due to student organizations	\$ 443,749	\$ 2,051,761	\$ 1,901,970	\$ 593,540
TOTAL LIABILITIES	<u>\$ 443,749</u>	<u>\$ 2,051,761</u>	<u>\$ 1,901,970</u>	<u>\$ 593,540</u>

See the accompanying Independent Auditor's Report.

FALCON SHOOOL DISTRICT 49
SCHEDULE OF CHANGES IN DUE TO STUDENT GROUPS
BUDGET (GAAP BASIS) AND ACTUAL
PUPIL ACTIVITY AGENCY FUND
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over / (Under)</u>
ADDITIONS				
Local Receipts	\$ 1,537,000	\$ 2,039,852	\$ 2,051,761	\$ 11,909
DEDUCTIONS				
Disbursements	<u>1,480,000</u>	<u>1,856,286</u>	<u>1,901,970</u>	<u>45,684</u>
CHANGES IN DUE TO STUDENT GROUPS	57,000	183,566	149,791	(33,775)
Due to student groups, July 1	<u>531,022</u>	<u>443,749</u>	<u>443,749</u>	<u>-</u>
Due to student groups, June 30	<u>\$ 588,022</u>	<u>\$ 627,315</u>	<u>\$ 593,540</u>	<u>\$ (33,775)</u>

See the accompanying Independent Auditor's Report.

FALCON SHOOOL DISTRICT 49
SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
BUDGET (GAAP BASIS) AND ACTUAL
SCHOLARSHIP FUND
For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Variance Over / (Under)
ADDITIONS			
Local Receipts	\$ 1,100	\$ 455	\$ (645)
DEDUCTIONS			
Disbursements-Scholarships	<u>1,200</u>	<u>209</u>	<u>(991)</u>
CHANGES IN DUE TO STUDENT GROUPS	(100)	246	346
DUE TO STUDENT GROUPS, JULY 1	<u>493</u>	<u>1,005</u>	<u>512</u>
DUE TO STUDENT GROUPS, JUNE 30	<u>\$ 393</u>	<u>\$ 1,251</u>	<u>\$ 858</u>

See the accompanying Independent Auditor's Report.

SINGLE AUDIT



Board of Education
Falcon School District 49
Falcon, Colorado

**INDEPENDENT AUDITORS' 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***

We have audited the financial statements of the Falcon School District 49 as of and for the year ended June 30, 2005, and have issued our report thereon dated January 20, 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 the Falcon School District 49's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on 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 consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Falcon School District 49 in a separate letter dated January 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Falcon School District 49'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 the Board of Education and management, and is not intended to be and should not be used by anyone other than these specified parties.

January 20, 2006

Board of Education
Falcon School District 49
Falcon, Colorado

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Falcon School District 49 with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Falcon School District 49's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Falcon School District 49's management. Our responsibility is to express an opinion on the Falcon School District 49'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 the Falcon School District 49'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 the Falcon School District 49's compliance with those requirements.

In our opinion, the Falcon School District 49 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Falcon School District 49 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 the Falcon School District 49'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 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 consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, 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.

Stantec & Company LLC

January 20, 2006

FALCON SCHOOL DISTRICT 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ yes x no
- Reportable conditions identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes x no
- Reportable conditions identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditors' 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 OMB Circular A-133?

_____ yes x no

Identification of major programs:

84.027 Special Education Grants to States
84.173 Special Education Preschool Grants
84.041 Impact Aid

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

Auditee qualified as low-risk auditee? _____ yes x no

Financial Statement Findings

The audit of the financial statements did not disclose reportable conditions in internal control that would be considered material weaknesses, and did not disclose fraud, illegal acts, violations of provisions of contracts and grant agreements, or abuse that were material to those financial statements.

Federal Awards Findings and Questioned Costs

The audit of federal awards did not disclose reportable conditions in internal control that would be considered material weaknesses, and did not disclose instances of noncompliance or abuse that were material to those federal awards.

FALCON SCHOOL DISTRICT 49
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2005

Federal Awards Findings and Questioned Costs

2004-1 Final Program Reports

Corrective action was taken regarding this prior audit finding.



Board of Education
Falcon School District 49
Falcon, Colorado

**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

We have audited the financial statements of the Falcon School District 49, as of and for the year ended June 30, 2005, and have issued our report thereon dated January 20, 2006. These financial statements are the responsibility of the Falcon School District 49'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, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Falcon School District 49's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The information in this schedule 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.

Swanhorst & Company LLC

January 20, 2006

FALCON SCHOOL DISTRICT 49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Education</u>		
Direct Programs		
Impact Aid	84.041	\$ 250,885
Passed through Colorado Department of Education		
Title I Grants to Local Education Agencies	84.010	239,223
Special Education - Grants to States	84.027	1,068,201
Special Education - Preschool Grants	84.173	27,382
Safe and Drug-Free Schools and Communities - State Grants	84.186	30,055
Technology Literacy Challenge Fund Grants	84.318	20,194
English Language Acquisition Grants	84.365	4,003
Improving Teacher Quality State Grant	84.367	134,187
State Grants for Innovative Programs	84.298	24,458
Passed through Colorado Community College and Occupational Education System		
Vocational Education - Basic Grants to States	84.048	19,743
<u>U.S. Department of Agriculture</u>		
Passed through Colorado Department of Human Services		
Food Donation	10.550	66,350
Passed through Colorado Department of Education		
School Breakfast Program	10.553	5,900
National School Lunch Program	10.555	437,149
Total Federal Awards		<u>\$ 2,327,730</u>

See the accompanying Independent Auditor's Report.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FALCON SCHOOL DISTRICT 49
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

NOTE 1 **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Falcon School District 49 and is presented on the modified accrual basis of accounting. The information 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.

NOTE 2 **FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at fair market value of the commodities received.

STATE COMPLIANCE

Auditor's Integrity Report (Revenue, Expenditures and Fund Balance by Fund).



Certified Public Accountants

Swanhorst & Company LLC

Board of Education
Falcon School District 49
Falcon, Colorado

**INDEPENDENT AUDITORS' REPORT ON
AUDITOR'S INTEGRITY REPORT**

We have audited the financial statements of the Falcon School District 49, as of and for the year ended June 30, 2005, and have issued our report thereon dated January 20, 2006. These financial statements are the responsibility of the Falcon School District 49'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Falcon School District 49's basic financial statements. The accompanying auditor's integrity report is presented for purposes of additional analysis as required by State of Colorado statutes and is not a required part of the basic financial statements. The information in this schedule 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.

Swanhorst & Company LLC

January 20, 2006

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Colorado Department of Education
Fiscal Year 2004-2005
Colorado School District/BOCES
Auditor's Integrity Report

EL PASO FALCON 49
District Code: 1110

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*) +	1000 - 5999 Total Revenues & Other Sources -	0001 - 0999 Total Expenditures & Other Uses =	6700 - 6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental				
10 General Fund	4,551,177	55,188,112	51,869,338	7,869,952
11 Charter School Fund	89,068	989,874	862,159	216,783
18 Risk Mgmt Sub-Fund of General Fund	2,439	461,225	446,926	16,739
19 Colorado Preschool Program Fund	0	0	0	0
20 Special Revenue Fund	0	0	0	0
21 Capital Reserve Spec Revenue Fund	-261,850	3,137,257	2,250,483	624,924
22 Govt Designated-Purpose Grants Fund	0	2,001,781	2,001,781	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
25 Transportation Fund	0	0	0	0
30 Debt Service Fund	0	0	0	0
31 Bond Redemption Fund	4,804,800	5,139,753	4,628,681	5,315,871
41 Building Fund	424,764	50,739	475,503	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,000	237,983	237,983	1,000
TOTALS	9,611,399	67,206,724	62,772,853	14,045,269
Proprietary				
51 Food Service Fund	979,040	2,182,251	2,108,176	1,053,115
50 Other Enterprise Funds	0	0	0	0
64 Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
TOTALS	979,040	2,182,251	2,108,176	1,053,115
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	1,005	455	209	1,251
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	443,749	2,051,761	1,901,970	593,539
TOTALS	444,753	2,052,216	1,902,179	594,790

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your prior period adjustment is added into both your ending and beginning fund balances on this report.

From submitted data file: fd1110.24c Program: fdrdh.sqr File: fd1110.dhc FINAL