

FALCON SCHOOL DISTRICT 49

**Falcon, Colorado
Financial Statements**

June 30, 2006

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FALCON SCHOOL DISTRICT 49

Financial Statements

Table of Contents

	PAGE
INTRODUCTORY SECTION	
Table of Contents	
Roster of Officials	
FINANCIAL SECTION	
Independent Auditors' Report	
Management's Discussion and Analysis	i-viii
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	6
Statement of Net Assets – Proprietary Fund	7
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	8
Statement of Cash Flows – Proprietary Fund	9
Statement of Fiduciary Net Assets	10
Statement of Changes in Fiduciary Net Assets – Private Purpose Scholarship Trust Fund	11
Notes to Financial Statements	12 – 32

FALCON SCHOOL DISTRICT 49
Financial Statements
Table of Contents

	PAGE
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual – General Fund	33
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual – Grants Fund	34
Notes to Required Supplementary Information	35
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	37
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Bond Redemption Debt Service Fund	38
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Capital Reserve Fund – Special Revenue Fund	39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual - Capital Reserve Fund – Capital Projects Fund	40
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Building Capital Projects Fund	41
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) – Food Service Fund	42
Schedule of Changes in Fiduciary Net Assets – Budget (GAAP Basis) and Actual – Scholarship Fund	43
Statement of Changes in Assets and Liabilities – Pupil Activity Agency Fund	44
Schedule of Changes in Due to Student Organizations – Budget (GAAP Basis) and Actual – Pupil Activity Agency Fund	45
Component Unit – Balance Sheet	46
Component Unit – Statement of Revenues, Expenditures and Changes in Fund Balance	47

FALCON SCHOOL DISTRICT 49
Financial Statements
Table of Contents

	PAGE
COMPLIANCE SECTION	
Single Audit	
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	48
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	49-50
Schedule of Findings and Questioned Costs	51
Independent Auditors' Report on Schedule of Expenditures of Federal Awards	52
Schedule of Expenditures of Federal Awards	53
Notes to Schedule of Expenditures of Federal Awards	54
State Compliance	
Independent Auditors' Report on Auditor's Integrity Report	55
Auditor's Integrity Report	56

FALCON SCHOOL DISTRICT 49
ROSTER OF SCHOOL OFFICIALS
June 30, 2006

BOARD OF EDUCATION

Dave Martin	President
Laine Gibson	Vice President
Amy McClelland	Secretary
Dave Stark	Treasurer
Anna Bartha	Member

SCHOOL OFFICIALS

Dr. Steven Hull	Superintendent
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FINANCIAL SECTION

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Certified Public Accountants

Swanhorst & Company LLC

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, 2006, 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, 2006, 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 December 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 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.

December 20, 2006

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BASIC FINANCIAL STATEMENTS

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FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		Charter
				School
ASSETS				
Cash and Investments	\$ 14,732,427	\$ 1,575,757	\$ 16,308,184	\$ 423,104
Restricted Cash and Investments	4,586,370	-	4,586,370	-
Receivables	1,967,750	113,169	2,080,919	9,223
Internal Balances	895,798	(895,798)	-	-
Inventories	-	105,420	105,420	-
Debt Issuance Costs	429,250	-	429,250	-
Capital Assets Not Being Depreciated	18,829,260	-	18,829,260	-
Capital Assets Being Depreciated, Net	71,358,803	454,241	71,813,044	-
Total Assets	112,799,658	1,352,789	114,152,447	432,327
LIABILITIES				
Accounts Payable and Other Current Liabilities	4,691,524	10,455	4,701,979	11,254
Retainage Payable	586,651	-	586,651	-
Accrued Salaries and Benefits Payable	6,977,231	24,412	7,001,643	91,810
Deferred Revenues	950,002	-	950,002	1,230
Accrued Interest Payable	235,609	-	235,609	-
Long-term Liabilities				
Due or payable within one year	3,339,642	-	3,339,642	-
Due or payable after one year	68,040,572	44,404	68,084,976	-
Total Liabilities	84,821,231	79,271	84,900,502	104,294
NET ASSETS				
Invested in Capital Assets Net of Related Debt	19,921,205	454,241	20,375,446	-
Restricted for:				
TABOR (emergencies)	2,100,000	-	2,100,000	31,427
Multi-year Obligations	553,000	-	553,000	-
Debt Service	11,782,770	-	11,782,770	-
Capital Purposes	1,395,252	-	1,395,252	-
Risk Management	6,527	-	6,527	-
Unrestricted	(7,780,327)	819,277	(6,961,050)	296,606
Total Net Assets	\$ 27,978,427	\$ 1,273,518	\$ 29,251,945	\$ 328,033

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, 2006

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	\$ 38,277,390	\$ 411,842	\$ 4,513,421	\$ (33,352,127)	\$ -	\$ (33,352,127)	\$ -
Instructional Support	7,176,243	961,052	-	(6,215,191)	-	(6,215,191)	-
General Administration	758,452	-	-	(758,452)	-	(758,452)	-
School Administration	3,873,135	-	-	(3,873,135)	-	(3,873,135)	-
Business Services	655,736	-	-	(655,736)	-	(655,736)	-
Maintenance and Operations	5,680,669	-	-	(5,680,669)	-	(5,680,669)	-
Transportation	3,165,751	-	791,101	(2,374,650)	-	(2,374,650)	-
Central Services	3,893,008	-	-	(3,893,008)	-	(3,893,008)	-
Other Services	4,464	-	-	(4,464)	-	(4,464)	-
Interest Expense	3,411,318	-	-	(3,411,318)	-	(3,411,318)	-
Total Governmental Activities	66,896,166	1,372,894	5,304,522	(60,218,750)	-	(60,218,750)	-
Business-Type Activities:							
Food Services	2,129,435	1,742,099	607,738	-	220,402	220,402	-
Total Business-Type Activities	2,129,435	1,742,099	607,738	-	220,402	220,402	-
Total Primary Government	\$ 69,025,601	\$ 3,114,993	\$ 5,912,260	(60,218,750)	220,402	(59,998,348)	-
Component Unit Activities	\$ 984,372	\$ 84,576	\$ 5,073				(894,723)
General Revenues:							
Property Taxes				21,056,256	-	21,056,256	-
Specific Ownership Taxes				2,746,886	-	2,746,886	-
State Equalization				45,807,614	-	45,807,614	969,644
Capital Construction Funding				-	-	-	24,231
Investment Earnings				398,143	-	398,143	7,248
Miscellaneous Revenues				558,102	-	558,102	4,850
Total General Revenues and Transfers				70,567,001	-	70,567,001	1,005,973
Change in Net Assets				10,348,251	220,402	10,568,653	111,250
Net Assets, July 1				17,630,176	1,053,116	18,683,292	216,783
Net Assets, June 30	\$ 27,978,427	\$ 1,273,518		\$ 27,978,427	\$ 1,273,518	\$ 29,251,945	\$ 328,033

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

FALCON SCHOOL DISTRICT 49
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Bond Redemption	Grants	Building	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 4,437,346	\$ 7,158,589	\$ 2,306,704	\$ -	\$ 829,788	\$ 14,732,427
Restricted Cash and Investments	4,405,757	-	-	-	180,613	4,586,370
Property Tax Receivable	658,284	254,859	-	-	-	913,143
Accounts Receivable	6,160	-	640,008	-	408,439	1,054,607
Due From Other Funds	14,908,872	27,557	-	-	-	14,936,429
TOTAL ASSETS	\$ 24,416,419	\$ 7,441,005	\$ 2,946,712	\$ -	\$ 1,418,840	\$ 36,222,976
LIABILITIES & FUND BALANCE						
LIABILITIES						
Accounts Payable	\$ 809,530	\$ -	\$ 197,105	3,574,172	\$ 23,528	\$ 4,604,335
Retainage Payable	-	-	-	586,651	-	586,651
Accrued Salaries and Benefits Payable	6,888,157	-	89,074	-	-	6,977,231
Compensated Absences Payable	87,189	-	-	-	-	87,189
Due To Other Funds	27,557	-	2,641,072	11,371,942	60	14,040,631
Deferred Revenue - Property Tax	306,928	126,964	-	-	-	433,892
Deferred Revenue - Forward Purchase Agreement	885,716	-	-	-	-	885,716
Deferred Revenue - Other	44,825	-	19,461	-	-	64,286
TOTAL LIABILITIES	9,049,902	126,964	2,946,712	15,532,765	23,588	27,679,931
FUND BALANCE (DEFICIT)						
Reserved for:						
TABOR (emergencies)	2,100,000	-	-	-	-	2,100,000
Multi-year Obligations	553,000	-	-	-	-	553,000
Debt Service	4,468,729	7,314,041	-	-	-	11,782,770
Capital Purposes	-	-	-	-	1,395,252	1,395,252
Risk Management	6,527	-	-	-	-	6,527
Unreserved	8,238,261	-	-	(15,532,765)	-	(7,294,504)
TOTAL FUND BALANCE (DEFICIT)	15,366,517	7,314,041	-	(15,532,765)	1,395,252	8,543,045
TOTAL LIABILITIES & FUND BALANCE	\$ 24,416,419	\$ 7,441,005	\$ 2,946,712	\$ -	\$ 1,418,840	\$ 36,222,976

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, 2006

Total fund balances--governmental funds		\$ 8,543,045
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.		90,188,063
Other long-term assets are not available to pay for current period expenditures and are therefore deferred in the governmental funds.		433,892
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.		(235,609)
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	\$ (61,670,151)
	Capital leases payable	(9,025,957)
	Debt issuance costs	429,250
	Compensated absences	<u>(684,106)</u>
		<u>(70,950,964)</u>
Total net assets--governmental activities		<u><u>-\$ 27,978,427</u></u>

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

FALCON SCHOOL DISTRICT 49
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Bond Redemption	Grants	Building	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 17,303,285	\$ 6,422,371	\$ -	\$ -	\$ -	\$ 23,725,656
Intergovernmental	48,696,691	-	2,415,445	-	-	51,112,136
Interest	312,236	61,746	-	-	24,161	398,143
Other	1,372,894	-	-	-	558,102	1,930,996
Total Revenues	<u>67,685,106</u>	<u>6,484,117</u>	<u>2,415,445</u>	<u>-</u>	<u>582,263</u>	<u>77,166,931</u>
EXPENDITURES						
Current						
Instruction	32,946,165	-	2,415,445	-	-	35,361,610
Student Support	4,277,273	-	-	-	-	4,277,273
Instructional Staff	2,898,970	-	-	-	-	2,898,970
General Administration	736,944	-	-	-	-	736,944
School Administration	3,873,135	-	-	-	-	3,873,135
Business Services	655,736	-	-	-	-	655,736
Operations & Maintenance	5,933,340	-	-	-	-	5,933,340
Student Transportation	2,687,933	-	-	-	-	2,687,933
Central Support	2,825,122	-	-	-	-	2,825,122
Other Support	4,464	-	-	-	-	4,464
Capital Outlay	46,868	-	-	15,532,765	2,383,081	17,962,714
Charter School	969,644	-	-	-	-	969,644
Debt Service						
Principal Retirement	4,747	1,425,000	-	-	1,426,864	2,856,611
Interest and Fiscal Charges	1,742	3,060,948	-	-	478,258	3,540,948
Debt Issuance Costs	-	268,007	-	-	-	268,007
Total Expenditures	<u>57,862,083</u>	<u>4,753,955</u>	<u>2,415,445</u>	<u>15,532,765</u>	<u>4,288,203</u>	<u>84,852,451</u>
Excess of Revenues Over (Under) Expenditures	9,823,023	1,730,162	-	(15,532,765)	(3,705,940)	(7,685,520)
OTHER FINANCING SOURCES (USES)						
Capital Lease	-	-	-	-	2,132,071	2,132,071
Bond Issued	-	24,449,477	-	-	-	24,449,477
Premium on Bonds	-	1,110,758	-	-	-	1,110,758
Payment to Escrow Agent	-	(25,292,227)	-	-	-	(25,292,227)
Transfers In	-	-	-	-	2,343,197	2,343,197
Transfers Out	(2,343,197)	-	-	-	-	(2,343,197)
Total Other Financing Sources (Uses)	<u>(2,343,197)</u>	<u>268,008</u>	<u>-</u>	<u>-</u>	<u>4,475,268</u>	<u>2,400,079</u>
Net Change in Fund Balances	7,479,826	1,998,170	-	(15,532,765)	769,328	(5,285,441)
Fund Balances, July 1	7,886,691	5,315,871	-	-	625,924	13,828,486
Fund Balances (Deficit), June 30	<u>\$ 15,366,517</u>	<u>\$ 7,314,041</u>	<u>\$ -</u>	<u>\$ (15,532,765)</u>	<u>\$ 1,395,252</u>	<u>\$ 8,543,045</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 BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Total net change in fund balances--governmental funds **\$ (5,285,441)**

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	\$	18,307,220	
Depreciation expense		<u>(3,644,701)</u>	14,662,519

Revenues that do not provide current financial resources are deferred in the governmental funds. This amount represents the change in deferred property taxes. 77,486

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.

Bond Proceeds and Registered Coupons	\$	(24,449,477)	
Bond Premium		(1,110,758)	
Debt Issuance Costs		268,007	
Capital Lease		<u>(2,132,071)</u>	(27,424,299)

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	\$	1,425,000	
Payment to escrow agent		25,292,227	
Capital Lease principal payment		<u>1,431,611</u>	28,148,838

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. 24,182

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.

Amortization of GO Bond issuance costs, premiums, and refunding loss	105,448
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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.

39,518

Change in net assets of governmental activities **\$ 10,348,251**

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

FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	Business Type Activities
	Food Services
ASSETS	
Current Assets	
Cash and Investments	\$ 1,575,757
Accounts Receivable	113,169
Inventories	<u>105,420</u>
Total Current Assets	<u>1,794,346</u>
Noncurrent Assets	
Capital assets	
Equipment, net of Accumulated Depreciation	<u>454,241</u>
Total Assets	<u>2,248,587</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	10,455
Accrued Salaries and Benefits Payable	24,412
Due To Other Funds	<u>895,798</u>
Total Current Liabilities	<u>930,665</u>
Noncurrent Liabilities	
Compensated Absences	<u>44,404</u>
Total Liabilities	<u>975,069</u>
NET ASSETS	
Invested in capital assets	454,241
Unrestricted	<u>819,277</u>
Total Net Assets	<u><u>\$ 1,273,518</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, 2006

	Business Type Activities
	Food Services
OPERATING REVENUES	
Local Sources	\$ 1,742,099
Total Operating Revenues	<u>1,742,099</u>
OPERATING EXPENSES	
Salaries	694,594
Employee Benefits	126,477
Purchased Services	110,278
Purchased Food	1,123,850
Other Expenses	12,237
Depreciation Expense	61,999
Total Operating Expenses	<u>2,129,435</u>
OPERATING INCOME (LOSS)	<u>(387,336)</u>
NON-OPERATING REVENUES	
School Lunch and Breakfast	487,324
Donated Commodities	93,514
State Match	26,900
Total Non-operating Revenues	<u>607,738</u>
Change in Net Assets	220,402
Net Assets, July 1	<u>1,053,116</u>
Net Assets, June 30	<u><u>\$ 1,273,518</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, 2006

	Business Type Activities <u>Food Services</u>
Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 1,742,099
Payments to Suppliers	(1,208,791)
Payments to Employees	<u>(857,522)</u>
Net Cash Used by Operating Activities	<u>(324,214)</u>
Cash Flows from Non-capital Financing Activities	
Payments To Other Funds	(1,096,501)
National School Lunch and Breakfast	473,321
State Reimbursements	<u>26,900</u>
Net Cash Used by Non-Capital Financing Activities	<u>(596,280)</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Equipment	<u>(8,177)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(8,177)</u>
Net Decrease in Cash and Cash Equivalents	(928,671)
Cash and Cash Equivalents, July 1	<u>2,504,428</u>
Cash and Cash Equivalents, June 30	<u><u>\$ -1,575,757</u></u>
Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities	
Operating Loss	\$ (387,336)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities	
Depreciation Expense	61,999
Donated Commodities	93,514
Increase in Inventory	(52,170)
(Decrease) in Accounts Payable	(3,770)
(Decrease) in Accrued Salaries and Benefits	(36,451)
Net Cash Used by Operating Activities	<u><u>\$ (324,214)</u></u>
Non-cash Activities	
Donated Commodities	<u><u>\$ 93,514</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, 2006

	Private Purpose Scholarship Trust	Pupil Activity Agency
ASSETS		
Cash and Investments	\$ 1,665	\$ 698,662
Total Assets	<u>1,665</u>	<u>698,662</u>
LIABILITIES		
Due to Student Organizations	<u>-</u>	<u>698,662</u>
Total Liabilities	<u>-</u>	<u>698,662</u>
NET ASSETS		
Held in Trust for Scholarship Recipients	<u>1,665</u>	<u>-</u>
Total Net Assets	<u><u>\$ 1,665</u></u>	<u><u>\$ -</u></u>

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

FALCON SCHOOL DISTRICT 49
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE SCHOLARSHIP TRUST FUND
For the Year Ended June 30, 2006

	Private Purpose Scholarship Trust
ADDITIONS	
Fundraising Activities	\$ 414
Total Additions	414
Change in Net Assets	414
Net Assets, July 1	1,251
Net Assets, June 30	\$ 1,665

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

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NOTES TO FINANCIAL STATEMENTS

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FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 10,500 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 describe the financial reporting entity as 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.

Discretely Presented Component Unit. PPSEL charter school educates children within the district's jurisdiction. A parent group elects members of its governing board. PPSEL provides services primarily to students within the District and is 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 non-major for financial reporting purposes. Separate financial statements are not issued for PPSEL.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

A. Reporting Entity (continued)

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. During the year ended June 30, 2006, EPSDBA had no activity.

This District is not included in any other governmental "reporting entity" as defined in governmental accounting standards. As required by these accounting standards, these 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 students 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.

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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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*. 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. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Property taxes, specific ownership taxes, grants and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 due and 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 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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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

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 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.

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:

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.

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.

Governmental Designated – Purpose Grants Fund – This fund is provided to maintain a separate accounting for federal and state grant funded programs.

Building Capital Projects Fund – used to account for the financing, construction and renovation, of new and existing District facilities.

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

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

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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

Additionally, the District reports the following fiduciary fund types:

Private-Purpose Trust Funds - account for the activities of various scholarship accounts. The District holds all resources in a purely custodial capacity.

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.

D. Assets, Liabilities and Fund Balances / Net Assets

Cash and Investments

The District utilizes the pooled cash concept whereby cash balances of each of the District's funds 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.

Receivables

Property taxes levied in 2005 but not yet collected in 2006 are identified as property taxes receivable at June 30, 2006, 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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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

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.

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 operations in the government-wide and proprietary fund financial statements.

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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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

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's general obligation bonds are serviced from property taxes and other revenues of the Bond Redemption 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.

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 or 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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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

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.

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 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 2006 were certified in December 2005 and were available for collection on January 1, 2006.

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 recorded as receivables and revenue when collected by the County.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 **CASH AND INVESTMENTS**

At June 30, 2006, the District had the following cash and investments:

Cash on Hand	\$ 670
Deposits	7,683,353
Investments	<u>14,333,962</u>
Total	<u>\$ 22,017,985</u>

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

Cash and Investments	\$ 16,308,184
Restricted Cash and Investments	4,586,370
Fiduciary Funds	700,327
Charter School	<u>423,104</u>
Total	<u>\$ 22,017,985</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 Statute. The State regulatory commissioners regulate the eligible public depositories. 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 102% of the uninsured deposits. At June 30, 2006 the District and Charter School had bank deposits of \$7,921,744 and \$333,899, respectively, collateralized with securities held by the financial institutions agent but not in the District's or Charter School's name.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

At June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Local Government Investment Pool COLOTRUST	N/A	\$5,558,608
J.P. Morgan U.S. Government Money Market Fund	N/A	4,448,311
Marshall Prime Money Market Fund	N/A	1,130,258
Federal National Mortgage Association	11/22/06	1,609,887
Federal National Mortgage Association	12/01/06	268,898
Repurchase Agreement	07/01/06	<u>1,318,000</u>
Total		<u>\$14,333,962</u>

The District has invested \$5,558,608 in the Colorado Local Government 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 the participating governments. Investments of COLOTRUST are limited to those allowed by State Statute.

The Repurchase Agreement, \$1,318,000, 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 instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

- 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, 2006, the District's investments in the Federal National Mortgage Association (Fannie Mae) were rated AAA by Standard & Poor's.

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, 2006 the District's investment in the JP Morgan U.S. Government Money Market Fund was rated 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, 2006, the District's investment in Fannie Mae and a repurchase agreement were 13% and 9%, respectively, of the District's total investments.

Restricted Cash and Investment

Cash and investments of \$4,586,370, representing unspent lease proceeds (\$180,613) and mill levy override funds (\$4,405,757), have been restricted for equipment, building improvements and debt service in the General and Capital Reserve Funds.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 **CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balances 06-30-05	Additions	Deletions	Balances 06-30-06
Governmental Activities				
Capital assets not being depreciated:				
Land and site improvements	\$ 3,335,336	\$ -	\$ -	\$ 3,335,336
Construction in process	-	15,493,924	-	15,493,924
Total capital assets not being depreciated	3,335,336	15,493,924	-	18,829,260
Capital assets being depreciated:				
Buildings and improvements	83,964,662	1,506,652	-	85,471,314
Equipment	6,094,565	1,306,644	-	7,401,209
Total capital assets being depreciated	90,059,227	2,813,296	-	92,872,523
Less accumulated depreciation for:				
Buildings and improvements	15,110,892	2,853,122	-	17,964,014
Equipment	2,758,127	791,579	-	3,549,706
Total accumulated depreciation	17,869,019	3,644,701	-	21,513,720
Total capital assets being depreciated, net	72,190,208	(831,405)	-	71,358,803
Governmental Activities capital assets, net	\$ 75,525,544	\$ 14,662,519	\$ -	\$ 90,188,063
Business-type Activities				
Capital assets being depreciated:				
Equipment	\$ 868,386	\$ 8,177	\$ -	\$ 876,563
Less accumulated depreciation for:				
Equipment	360,323	61,999	-	422,322
Business-type Activities capital assets, net	\$ 508,063	\$ (53,822)	\$ -	\$ 454,241

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 **CAPITAL ASSETS (continued)**

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

Governmental Activities:

Instruction	\$ 2,955,298
General Administration	21,508
Operation and Maintenance	91,835
Student Transportation	477,818
Central Support	<u>98,242</u>

Total Depreciation Expense –Governmental Activities	<u>\$ 3,644,701</u>
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Business - Type Activities:

Food Services	<u>\$ 61,999</u>
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NOTE 4 **INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS**

Due From	Due to	Amount
Grants	General	\$ 2,641,072
Capital Reserve	General	60
General	Bond Redemption	27,557
Building	General	11,371,942
Food Services	General	<u>895,798</u>
Total		<u>\$ 14,936,429</u>

Interfund Receivables and Payables

During the year, the General Fund covered operating expenditures for the Grants Fund, and capital outlay expenditures for the Capital Reserve, and Building funds. The General Fund also paid expenses on behalf of Food Services for salaries and benefits. Balances are routinely cleared as a matter of practice. These amounts are expected to be paid back within one year. The Building Fund will repay the General Fund with the Certificates of Participation (COPs) issued subsequent to June 30, 2006.

Transfers

During the year ended June 30, 2006, the General Fund transferred \$2,343,197 to the Capital Reserve Fund as required by State statute. The District is required to allocate \$271 per funded pupil for insurance and capital expenditures.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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, 2006, were \$7,001,643 and \$91,810 for the District and Charter School, respectively. The accrued compensation is reflected as a liability in the accompanying financial statements.

At June 30, 2006, the District has recorded a liability of \$87,189 for unpaid compensated absences due to retired teachers. Accordingly, the compensated absences payable is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6 **LONG TERM LIABILITIES**

Long-term debt activity for the year ended June 30, 2006 was as follows:

	Balances 06-30-05	Additions	Deletions	Balances 06-30-06	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 58,410,000	\$ 23,315,000	\$ 24,630,000	\$ 57,095,000	\$ 1,790,000
Registered Coupons	3,666,801	1,134,477	337,245	4,464,033	-
Accrued Interest	-	349,281	42,755	306,526	-
Bond Premiums	2,630,602	1,110,758	860,894	2,880,466	-
Loss on Refunding	(1,510,524)	(1,702,671)	(137,321)	(3,075,874)	-
Total	63,196,879	24,206,845	25,733,573	61,670,151	1,790,000
Capital Lease Obligations	8,325,497	2,132,071	1,431,611	9,025,957	1,475,416
Compensated Absences	723,624	-	39,518	684,106	74,226
Total Governmental Activities	\$ 72,246,000	\$ 26,338,916	\$ 27,204,702	\$ 71,380,214	\$ 3,339,642
Business-type Activities					
Compensated Absences	\$ 44,404	\$ -	\$ -	\$ 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, 2006

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

<u>\$23,315,000, 2006 General Obligation Refunding Bonds</u> interest due semi-annually with rates ranging from 3.55% to 5.00%, principal due annually through 2021 in payments of \$463,306 to \$2,855,000.	\$ 23,315,000
<u>\$10,660,000, 2002 General Obligation Refunding Bonds</u> 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.	10,660,000
<u>\$27,990,000, 2002 General Obligation Bonds</u> 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.	4,685,000
<u>\$15,700,000, 1999 General Obligation Bonds</u> 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.	15,095,000
<u>\$15,800,000, 1996 General Obligation Bonds</u> 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.	<u>3,340,000</u>
Total general obligation bonded debt	<u>\$ 57,095,000</u>
 \$1,134,477 registered coupons, in conjunction with Series 2006 G.O. Refunding Bonds, yielding between 3.55% to 4% due annually through 2012 in amounts of \$130,000 to \$475,000.	 \$ 1,134,477
 \$1,402,335 registered coupons, in conjunction with Series 2002 G.O. Refunding Bonds, yielding between 1.75% to 3.80% payments due annually through 2009 in amounts of \$156,570 to \$268,023.	 645,654
 \$3,190,366 registered coupons, in conjunction with Series 2002 G.O. Bonds, yielding between 3.00% to 4.92%, payments due annually through 2011 in amounts of \$125,000 to \$930,000.	 <u>2,683,902</u>
Total registered coupons	<u>\$ 4,464,033</u>
Accrued interest on registered coupons	<u>\$ 306,526</u>
Total	<u><u>\$ 61,865,559</u></u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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
2007	\$ 1,790,000	\$ 2,786,599	\$ 4,576,599
2008	2,155,000	2,690,776	4,845,776
2009	2,520,000	2,571,083	5,091,083
2010	2,695,000	2,445,069	5,140,069
2011	3,385,000	2,306,344	5,691,344
2012 – 2016	24,055,000	8,430,516	32,485,516
2017 – 2021	17,640,000	2,762,363	20,402,363
2022	2,855,000	71,375	2,926,375
Total	\$ 57,095,000	\$ 24,064,125	\$ 81,159,125

Capital Leases

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 assets of \$12,354,494 have been capitalized under these leases.

Capital lease obligations for the fiscal year ended June 30, 2006, are comprised of the following:

	Balances 06-30-05	Additions	Deletions	Balances 06-30-06	Due Within One Year
2006 Modular Lease (\$1,199,071)	\$ -	\$ 1,199,071	\$ 159,340	\$ 1,039,731	\$ 112,695
2006 Equipment Lease (\$933,000)	-	933,000	149,244	783,756	302,488
2004 Equipment Leases (\$1,764,134)	1,554,779	-	202,747	1,352,032	211,571
2002 Equipment Lease (\$734,942)	550,228	-	67,733	482,495	71,069
2002 Land and Modular Leases (4,500,000)	3,592,685	-	280,193	3,312,492	295,094
2001 Equipment Leases (\$1,273,347)	576,106	-	243,031	333,075	176,069
2000 Modular Lease (\$2,011,857)	2,011,857	-	289,481	1,722,376	306,430
2000 Equipment Lease (\$28,024)	552	-	552	-	-
1998 Equipment Leases (\$471,170)	39,290	-	39,290	-	-
Total	\$ 8,325,497	\$ 2,132,071	\$ 1,431,611	\$ 9,025,957	\$ 1,475,416

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

Capital Leases (continued)

Future debt service requirements for the Capital Lease agreements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,475,416	\$ 455,808	\$ 1,931,224
2008	1,519,188	384,948	1,904,136
2009	1,263,948	307,057	1,571,005
2010	1,157,236	245,650	1,402,886
2011	1,217,774	185,112	1,402,886
2012 – 2016	2,226,499	317,038	2,543,537
2017	165,896	8,417	174,313
Total	\$ 9,025,957	\$ 1,904,030	\$ 10,929,987

Defeased Debt

During the year ended June 30, 2006, the District partially refunded the General Obligation Bonds, Series 2002. The net proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments on existing bonds. Although the advance refunding resulted in an accounting loss of \$1,702,671, the District reduced its aggregate debt service payments by approximately \$1,275,000, and obtained an economic gain of approximately \$948,400. The outstanding balance of defeased GO Bond debt at June 30, 2006 was \$23,205,000.

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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 7 **DEFINED BENEFIT PENSION PLAN (continued)**

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 was 10.15% of covered salary from July 1, 2005 through December 31, 2005, and 10.65% thereafter. 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, 2006, 2005, and 2004 were \$4,107,597, \$3,642,999 and \$3,280,653 respectively, equal to the required contributions for each year.

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, 2006, 2005, and 2004 were \$397,718, \$367,079 and \$355,829 respectively, equal to their required contributions for each year.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 three 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, 2006, 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.

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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

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, 2006 the District reserved \$2,100,000 in the General Fund for this purpose.

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, 2006:

	<u>Revenue Recognized</u>	<u>Balance (Deferred Revenue)</u>
Fiscal Year Ending June 30, 2006	\$ 88,571	\$ 885,716

NOTE 12 **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Accountability

At June 30, 2006, the Building Fund had a deficit fund balance of \$15,532,765 and the Governmental Activities had unrestricted net assets deficit of \$7,780,327 because the District began construction of several new school buildings and renovation of existing buildings. The deficits will be eliminated with the issuance of the Certificates of Participation in July, 2006.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 13 **SUBSEQUENT EVENTS**

Certificates of Participation Issue

On July 13, 2006, the District issued Certificates of Participation (COPs) in the par amount of \$53,400,000 with interest rates ranging from 4.25% to 5.00%. The proceeds are to be used for the construction of new schools, renovation and additions to existing schools.

Superintendent Contract Buy-out

In July, 2006, the District agreed to buy-out the Superintendent's remaining contract for \$290,000.

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2006

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
<u>Local Sources:</u>				
Property Taxes	\$ 11,293,217	\$ 10,919,159	\$ 15,315,231	\$ 4,396,072
Specific Ownership Taxes	1,927,698	1,927,698	1,975,543	47,845
Earnings on Investments	115,000	115,000	312,236	197,236
Delinquent Taxes and Interest	-	-	12,511	12,511
Tuition	-	-	411,842	411,842
Other	475,000	475,000	961,052	486,052
<u>State Sources:</u>				
Equalization	46,333,857	45,123,376	45,807,614	684,238
Transportation	665,000	665,000	791,101	126,101
Vocational Education	46,894	46,894	180,461	133,567
Special Education	695,000	695,000	1,431,412	736,412
ELPA	7,000	7,000	9,283	2,283
Gifted and Talented	62,500	62,500	68,405	5,905
Medicaid	75,000	55,000	149,047	94,047
ROTC	-	-	98,469	98,469
<u>Federal Sources:</u>				
Impact Aid	230,000	230,000	160,899	(69,101)
Other	55,000	55,000	-	(55,000)
Total Revenues	61,981,166	60,376,627	67,685,106	7,308,479
EXPENDITURES				
<u>Instructional</u>	34,995,283	34,006,663	32,946,165	1,060,498
<u>Support Services</u>				
Student Support	4,096,171	3,934,269	4,277,273	(343,004)
Instructional Staff	2,416,228	2,316,790	2,898,970	(582,180)
General Administration	669,997	737,544	736,944	600
School Administration	3,545,356	3,546,168	3,873,135	(326,967)
Business Services	756,745	694,024	655,736	38,288
Operations and Maintenance	6,322,371	5,750,057	5,933,340	(183,283)
Student Transportation	2,361,704	2,315,431	2,687,933	(372,502)
Central Support	3,208,247	3,062,793	2,825,122	237,671
Other Support	77,894	30,402	4,464	25,938
Facilities Acquisition/Construction	101,000	100,000	46,868	53,132
Charter Schools	-	-	969,644	(969,644)
Debt Service				
Principal Retirement	-	-	4,747	(4,747)
Interest and Fiscal Charges	11,000	11,000	1,742	9,258
Total Support Services	23,566,713	22,498,478	24,915,918	(2,417,440)
Reserves	1,960,909	2,256,505	-	2,256,505
Total Expenditures	60,522,905	58,761,646	57,862,083	899,563
Revenues Over Expenditures	1,458,261	1,614,981	9,823,023	8,208,042
Other Financing Sources (Uses)				
Transfers Out	(2,448,209)	(2,343,197)	(2,343,197)	-
Total Other Financing Sources (Uses)	(2,448,209)	(2,343,197)	(2,343,197)	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Sources (Uses)	(989,948)	(728,216)	7,479,826	8,208,042
Fund Balance, July 1	\$ 5,655,981	\$ 5,655,981	\$ 7,886,691	2,230,710
Fund Balance, June 30	\$ 4,666,033	\$ 4,927,765	\$ 15,366,517	\$ 10,438,752

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
GRANTS FUND
For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Local Sources	\$ 10,000	\$ -	\$ (10,000)
State Sources	375,000	279,547	(95,453)
Federal Sources	1,769,974	2,135,898	365,924
 TOTAL REVENUES	 2,154,974	 2,415,445	 260,471
EXPENDITURES			
Instruction	2,154,974	2,415,445	(260,471)
 TOTAL EXPENDITURES	 2,154,974	 2,415,445	 (260,471)
 Net Change in Fund Balance	 -	 -	 -
 Fund Balance, July 1	 -	 -	 -
 Fund Balance, June 30	 \$ -	 \$ -	 \$ -

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2006

NOTE 1 **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles, 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 Superintendent 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 Superintendent 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 is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Fund, and Trust and Agency Funds.

All appropriations lapse at the end of each fiscal year.

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

Legal Compliance

For the year ended June 30, 2006, the Grants Fund and Pupil Activity Fund expenditures exceeded the budgeted amounts by \$260,471 and \$258,656, respectively, because actual grant and student organization expenditures exceeded management's expectations.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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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.

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.

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FALCON SCHOOL DISTRICT 49
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	<u>Special Revenue</u> <u>Capital Reserve</u>	<u>Capital Projects</u> <u>Capital Reserve</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and Investments	\$ 735,716	\$ 94,072	\$ 829,788
Restricted Cash and Investments	180,613	-	180,613
Accounts Receivable	-	408,439	408,439
TOTAL ASSETS	<u>\$ 916,329</u>	<u>\$ 502,511</u>	<u>\$ 1,418,840</u>
LIABILITIES & FUND BALANCE			
LIABILITIES			
Accounts Payable	23,528	-	23,528
Due To Other Funds	60	-	60
TOTAL LIABILITIES	<u>23,588</u>	<u>-</u>	<u>23,588</u>
FUND BALANCE			
Reserved for Capital Purposes	892,741	502,511	1,395,252
Total Reserved Fund Balance	<u>892,741</u>	<u>502,511</u>	<u>1,395,252</u>
TOTAL FUND BALANCE	<u>892,741</u>	<u>502,511</u>	<u>1,395,252</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 916,329</u>	<u>\$ 502,511</u>	<u>\$ 1,418,840</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	<u>Special Revenue</u> <u>Capital Reserve</u>	<u>Capital Projects</u> <u>Capital Reserve</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Interest	\$ 24,161	\$ -	\$ 24,161
Miscellaneous	56,591	501,511	558,102
Total Revenues	<u>80,752</u>	<u>501,511</u>	<u>582,263</u>
EXPENDITURES			
Capital Outlay	2,383,081	-	2,383,081
Debt Service			
Principal Retirements	1,426,864	-	1,426,864
Interest and Fiscal Charges	478,258	-	478,258
Total Expenditures	<u>4,288,203</u>	<u>-</u>	<u>4,288,203</u>
Excess of Revenues Over (Under) Expenditures	(4,207,451)	501,511	(3,705,940)
OTHER FINANCING SOURCES			
Capital Lease	2,132,071	-	2,132,071
Transfers In	2,343,197	-	2,343,197
Total Other Financing Sources	<u>4,475,268</u>	<u>-</u>	<u>4,475,268</u>
Net Change in Fund Balance	267,817	501,511	769,328
Fund Balance, July 1	<u>624,924</u>	<u>1,000</u>	<u>625,924</u>
Fund Balance, June 30	<u>\$ 892,741</u>	<u>\$ 502,511</u>	<u>\$ 1,395,252</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
BOND REDEMPTION DEBT SERVICE FUND
For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Property Taxes	\$ 5,209,810	\$ 5,651,028	\$ 441,218
Specific Ownership Taxes	700,000	771,343	71,343
Interest	40,000	61,746	21,746
Total Revenues	<u>5,949,810</u>	<u>6,484,117</u>	<u>534,307</u>
EXPENDITURES			
Debt service			
Principal Retirement	1,425,000	1,425,000	-
Interest and Fiscal Charges	3,459,108	3,060,948	398,160
Debt Issuance Costs	-	268,007	(268,007)
Contingency	168,723	-	168,723
Total Expenditures	<u>5,052,831</u>	<u>4,753,955</u>	<u>298,876</u>
Excess Revenue Over (Under) Expenditures	896,979	1,730,162	833,183
OTHER FINANCING SOURCES (USES)			
Bond Issued	-	24,449,477	24,449,477
Premium on Bonds	-	1,110,758	1,110,758
Payment to Escrow Agent	-	(25,292,227)	-(25,292,227)
Transfers Out	(740,000)	-	740,000
Total Other Financing Sources (Uses)	<u>(740,000)</u>	<u>268,008</u>	<u>1,008,008</u>
Net change in fund balance	156,979	1,998,170	1,841,191
Fund Balance, July 1	<u>5,067,575</u>	<u>5,315,871</u>	<u>248,296</u>
Fund Balance, June 30	<u>\$ 5,224,554</u>	<u>\$ 7,314,041</u>	<u>\$ 2,089,487</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
CAPITAL RESERVE FUND - SPECIAL REVENUE FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
Interest	\$ 86,667	\$ 86,667	\$ 24,161	\$ (62,506)
Other	177,000	135,000	56,591	(78,409)
Total Revenue	<u>263,667</u>	<u>221,667</u>	<u>80,752</u>	<u>(140,915)</u>
EXPENDITURES				
Capital Outlay:				
Buildings	<u>3,194,468</u>	<u>3,194,468</u>	<u>2,383,081</u>	<u>811,387</u>
Total Capital Outlay	<u>3,194,468</u>	<u>3,194,468</u>	<u>2,383,081</u>	<u>811,387</u>
Debt service				
Principal Retirements	1,571,559	1,571,559	1,426,864	144,695
Interest and Fiscal Charges	-	-	478,258	(478,258)
Appropriated Reserves	<u>142,981</u>	<u>142,981</u>	<u>-</u>	<u>142,981</u>
Total Expenditures	<u>4,909,008</u>	<u>4,909,008</u>	<u>4,288,203</u>	<u>620,805</u>
Excess of Revenues Over (Under) Expenditures	(4,645,341)	(4,687,341)	(4,207,451)	479,890
OTHER FINANCING SOURCES (USES)				
Capital Lease	2,132,071	2,132,071	2,132,071	-
Transfers In	<u>2,558,100</u>	<u>2,343,197</u>	<u>2,343,197</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>4,690,171</u>	<u>4,475,268</u>	<u>4,475,268</u>	<u>-</u>
Net Change in Fund Balance	44,830	(212,073)	267,817	479,890
Fund Balance, July 1	<u>372,822</u>	<u>372,822</u>	<u>624,924</u>	<u>252,102</u>
Fund Balance, June 30	<u>\$ 417,652</u>	<u>\$ 160,749</u>	<u>\$ 892,741</u>	<u>\$ 731,992</u>

See the accompanying Independent Auditors' Report.

FALCON SHOOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
CAPITAL RESERVE FUND - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Fees in Lieu of Land	\$ 125,000	\$ 501,511	\$ 376,511
EXPENDITURES			
Capital Outlay	125,000	-	125,000
Total Expenditures	125,000	-	125,000
Net change in fund balance	-	501,511	501,511
Fund Balance, July 1	1,000	1,000	-
Fund Balance, June 30	\$ 1,000	\$ 502,511	\$ 501,511

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
BUILDING CAPITAL PROJECTS FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
EXPENDITURES				
Capital Outlay:				
Buildings	\$ -	\$ 50,450,000	\$ 15,532,765	\$ 34,917,235
TABOR Reserves	-	1,513,500	-	1,513,500
Total Expenditures	-	51,963,500	15,532,765	36,430,735
Excess of Revenues Over (Under) Expenditures	-	(51,963,500)	(15,532,765)	36,430,735
OTHER FINANCING SOURCES				
Certificates of Participation	-	80,500,000	-	(80,500,000)
Net Change in Fund Balance	-	28,536,500	(15,532,765)	(44,069,265)
Fund Balance, July 1	-	-	-	-
Fund Balance (Deficit), June 30	\$ -	\$ 28,536,500	\$ (15,532,765)	\$ (44,069,265)

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON - GAAP BASIS) AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
OPERATING REVENUES				
Local Sources				
Charges for Services	1,615,000	1,655,000	1,742,099	87,099
Total Operating Revenues	1,615,000	1,655,000	1,742,099	87,099
OPERATING EXPENSES				
Salaries	685,000	685,000	694,594	(9,594)
Employee Benefits	130,000	130,000	126,477	3,523
Purchased Services	87,000	87,000	110,278	(23,278)
Purchased Food	840,000	840,000	1,123,850	(283,850)
Other Expenses	347,500	247,500	12,237	235,263
Indirect Costs	25,000	25,000	-	25,000
Equipment Replacement	51,000	51,000	8,177	42,823
Depreciation Expense	100,000	85,000	61,999	23,001
Contingency	822,040	64,515	-	64,515
Total operating expenses	3,087,540	2,215,015	2,137,612	77,403
Operating Income (Loss)	(1,472,540)	(560,015)	(395,513)	164,502
NON-OPERATING REVENUES				
Federal Sources				
National School Lunch Program	400,000	490,000	487,324	(2,676)
Commodity Contributions	75,000	75,000	93,514	18,514
State Match	-	-	26,900	26,900
Total Non-operating Revenues	475,000	565,000	607,738	42,738
Change in net assets, Budgetary Basis	\$ (997,540)	\$ 4,985	212,225	\$ 207,240
ADJUSTMENTS TO GAAP BASIS				
Equipment Replacement			8,177	
Change in net assets, GAAP Basis			220,402	
Net Assets, July 1			1,053,116	
Net Assets, June 30			\$ 1,273,518	

See the accompanying Independent Auditors' 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, 2006

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
ADDITIONS			
Fundraising Activities	\$ 540	\$ 414	\$ (126)
DEDUCTIONS			
Scholarships Awarded	1,000	-	1,000
Change in Net Assets	(460)	414	874
Net Assets, July 1	545	1,251	706
Net Assets, June 30	<u>\$ 85</u>	<u>\$ 1,665</u>	<u>\$ 1,580</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
PUPIL ACTIVITY AGENCY FUND
For the Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
ASSETS				
Cash and Investments	\$ 593,540	\$ 2,243,278	\$ 2,138,156	\$ 698,662
TOTAL ASSETS	<u>\$ 593,540</u>	<u>\$ 2,243,278</u>	<u>\$ 2,138,156</u>	<u>\$ 698,662</u>
LIABILITIES				
Due to Student Organizations	\$ 593,540	\$ 2,243,278	\$ 2,138,156	\$ 698,662
TOTAL LIABILITIES	<u>\$ 593,540</u>	<u>\$ 2,243,278</u>	<u>\$ 2,138,156</u>	<u>\$ 698,662</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
SCHEDULE OF CHANGES IN DUE TO STUDENT ORGANIZATIONS
BUDGET (GAAP BASIS) AND ACTUAL
PUPIL ACTIVITY AGENCY FUND
For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
ADDITIONS			
Pupil Activities	\$ 2,087,400	\$ 2,243,278	\$ 155,878
DEDUCTIONS			
Pupil Activities	1,879,500	2,138,156	(258,656)
Change in Due to Student Organizations	207,900	105,122	(102,778)
Due to Student Organizations, July 1	641,749	593,540	(48,209)
Due to Student Organizations, June 30	<u>\$ 849,649</u>	<u>\$ 698,662</u>	<u>\$ (150,987)</u>

See the accompanying Independent Auditors' Report.

FALCON SHOOOL DISTRICT 49
COMPONENT UNIT
BALANCE SHEET
June 30, 2006

Pikes Peak School
of Expeditionary
Learning

ASSETS

Cash and Investments	\$ 423,104
Accounts Receivable	9,223
TOTAL ASSETS	<u>\$ 432,327</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	11,254
Accrued Salaries & Benefits Payable	91,810
Deferred Revenues	1,230
TOTAL LIABILITIES	<u>104,294</u>

FUND BALANCE

Reserved for Emergencies	31,427
Unreserved	<u>296,606</u>

TOTAL FUND BALANCE	<u>328,033</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 432,327</u>
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See the accompanying Independent Auditors' Report.

FALCON SHOOOL DISTRICT 49
 COMPONENT UNIT
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 For the Year Ended June 30, 2006

	Pikes Peak School of Expeditionary Learning
REVENUES	
Local Sources	
Per Pupil Operating Revenue	\$ 969,644
Student Fees and Extended Day Programs	84,576
Contributions	1,350
Interest	7,248
Other	3,500
State Sources	
Capital Construction Funding	24,231
Federal Sources	
Other	5,073
	<hr/>
Total Revenues	1,095,622
	<hr/>
EXPENDITURES	
Instruction	641,052
Supporting services	343,320
	<hr/>
Total Expenditures	984,372
	<hr/>
Excess Revenues Over Expenditures	.111,250
	<hr/>
Fund Balance, July 1	- 216,783
	<hr/>
Fund Balance, June 30	\$ 328,033
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See the accompanying Independent Auditors' Report.

COMPLIANCE SECTION

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SINGLE AUDIT

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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, 2006, and have issued our report thereon dated December 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.

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 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.

Swanhorst & Company LLC

December 20, 2006

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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, 2006. 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, 2006.

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 for the information 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.

Granbury Company LLC

December 20, 2006

FALCON SCHOOL DISTRICT 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

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:

84.010 Title I
84.027 Special Education
84.173 Special Education-Preschool

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.

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Swanhorst & Company LLC

Certified Public Accountants

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, 2006, and have issued our report thereon dated December 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

December 20, 2006

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FALCON SCHOOL DISTRICT 49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Direct Programs		
Impact Aid	84.041	\$ 160,899
Passed Through Colorado Department of Education		
Title I	84.010	340,593
Special Education	84.027	1,257,037
Special Education - Preschool	84.173	91,375
Safe and Drug-Free Schools and Communities	84.186	22,300
Education Technology	84.318	6,547
Improving Teacher Quality	84.367	141,284
Innovative Programs	84.298	40,877
Hurricane Education Recovery	84.938	86,454
Total Passed Through Colorado Department of Education		<u>1,986,467</u>
Passed Through Colorado Community College and Occupational Education System		
Vocational Education	84.048	28,474
Tech-Prep Education	84.243	23,066
Total Passed Through Colorado Community College and Occupational Education System		<u>51,540</u>
Passed Through Colorado Department of Human Services		
Rehabilitation Services - Vocational Rehabilitation	84.126	89,616
Passed Through Lewis Palmer School District		
English Language Acquisition	84.365	8,275
Total U.S. Department of Education		<u>2,296,797</u>
U.S. Department of Agriculture		
Passed Through Colorado Department of Human Services		
Food Donation	10.550	93,514
Passed Through Colorado Department of Education		
School Breakfast Program	10.553	11,808
National School Lunch Program	10.555	475,516
Total Passed Through Colorado Department of Education		<u>487,324</u>
Total U.S. Department of Agriculture		<u>580,838</u>
Total Federal Awards		<u><u>\$ 2,877,635</u></u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2006

NOTE 1 **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal 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 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.

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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, 2006, and have issued our report thereon dated December 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.

December 20, 2006

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02/15/2007
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District Code: 1110

Colorado Department of Education

Fiscal Year 2005-2006

Colorado School District/BOCES
Auditor's Integrity Report

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	7,869,952	63,905,567	56,415,528	15,359,991
11 Charter School Fund	216,782	1,095,621	984,370	328,033
18 Risk Mgmt Sub-Fund of General Fund	16,739	466,697	476,909	6,527
19 Colorado Preschool Program Fund	0	0	0	0
20 Special Revenue Fund	0	0	0	0
21 Capital Reserve Spec Revenue Fund	624,924	4,556,020	4,288,203	892,741
22 Govt Designated-Purpose Grants Fund	-0	2,415,445	2,415,445	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	5,315,871	32,044,353	30,046,183	7,314,041
41 Building Fund	0	0	15,532,764	-15,532,764
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	1,000	501,511	0	502,511
TOTALS	14,045,269	104,985,214	110,159,402	8,871,080
Proprietary				
51 Food Service Fund	1,053,115	2,349,837	2,129,435	1,273,517
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
TOTALS	1,053,115	2,349,837	2,129,435	1,273,517
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	1,251	414	0	1,665
74 Pupil Activity Agency Fund	593,539	2,243,278	2,138,156	698,661
85 Foundations	0	0	0	0
TOTALS	594,790	2,243,692	2,138,156	700,325

*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: fd1110.20c

Program: fdrdh.sqr

File: fd1110.dhc

FINAL

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