

FALCON SCHOOL DISTRICT 49
Falcon, Colorado

Financial Statements

June 30, 2008

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**FALCON SCHOOL DISTRICT 49
ROSTER OF SCHOOL OFFICIALS
June 30, 2008**

BOARD OF EDUCATION

Dave Stark	President
Dave Martin	Vice President
Anna Bartha	Secretary
Kent Clawson	Treasurer

SCHOOL OFFICIALS

Grant E. Schmidt	Superintendent
Laine Gibson	Chief Financial Officer

FINANCIAL SECTION



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 units and remaining fund information of the Falcon School District 49, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Falcon School District 49, 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 did not audit the financial statements of the Rocky Mountain Classical Academy, which represent 18 percent and 41 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Rocky Mountain Classical Academy, is based solely upon the report of other auditors.

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, based on our audit and the report of other auditors, 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 units and remaining fund information of the Falcon School District 49, as of June 30, 2008, 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 March 13, 2009, 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 financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stentz & Company LLC

March 13, 2009

Management's Discussion and Analysis

As management of Falcon School District 49, we offer readers of the Falcon School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The primary government has government-wide net assets totaling \$62,708,307 at the end of the current fiscal year.
- The general fund ending fund balance of \$23,216,948 maintained a fund balance to revenue ratio above 10% (per Board of Education Policy).
- Business-type activities reported unrestricted net assets of \$977,269 in the Nutritional Service Fund.
- A Mill Levy Override was approved by the voters in the November 2005 election. The money from the override is to be used to pay back certificates of participation (which were sold in July 2006 and August 2007); the funds are to be used for construction projects. The projects were started before the certificates of participation were sold.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, instructional support, general and school administration, business and central services, maintenance and operations, and transportation. The business-type activity of the District includes food service.

The government-wide financial statements include not only the District itself (known as the primary government), but also legally separate charter schools. Financial information for the charter schools are presented separately because the charter schools are financially accountable to the District and provide services to the District's students.

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

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

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

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

Falcon School District adopts an annual appropriated budget for each of the governmental funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds. Falcon School District maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its food service operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Falcon School District, assets exceeded liabilities by \$62,708,307 at the close of the most recent fiscal year.

\$29,845,853 of net assets is invested in capital assets net of accumulated depreciation and related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (33%) represents resources that are subject to external restriction on how they may be used. At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

FALCON SCHOOL DISTRICT 49 NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
ASSETS		(restated)				(restated)
Current assets	\$ 56,354,654	\$ 48,804,028	\$ 1,009,711	\$ 1,085,740	\$ 57,364,365	\$ 49,889,768
Non current assets	2,032,558	1,531,531	100,141	-	2,132,699	1,531,531
Capital assets, net of depreciation	173,320,193	127,721,235	406,816	426,076	173,727,009	128,147,311
Total assets	231,707,405	178,056,794	1,516,668	1,511,816	233,224,073	179,568,610
LIABILITIES						
Current liabilities	15,033,224	14,163,986	80,081	73,121	15,113,305	14,237,107
Long-term liabilities	155,349,959	119,645,344	52,502	48,345	155,402,461	119,693,689
Total liabilities	170,383,183	133,809,330	132,583	121,466	170,515,766	133,930,796
NET ASSETS						
Invested in Capital Assets (Net of Related Debt)	29,439,037	12,827,937	406,816	426,076	29,845,853	13,254,013
Restricted for						
TABOR	2,700,000	2,300,000	-	-	2,700,000	2,300,000
Multi year obligations			-	-	-	-
Capital Projects			-	-	-	-
Debt Service	16,491,989	13,631,624	-	-	16,491,989	13,631,624
Construction			-	-	-	-
Capital purposes	911,324	615,523	-	-	911,324	615,523
Risk Management	89,240	54,758	-	-	89,240	54,758
Preschool	149,879	69,386	-	-	149,879	69,386
Unreserved	11,542,753	14,748,236	977,269	964,274	12,520,022	15,712,510
TOTAL NET ASSETS	61,324,222	44,247,464	1,384,085	1,390,350	62,708,307	45,637,814

Governmental activities increased the net assets of the District by \$17,076,758. Program revenues included \$1,902,977 in charges for services, \$6,102,382 in operating grants and contributions, and \$9,192,240 in capital grants and contributions. Over \$95 million was received in general revenues consisting of local property taxes, specific ownership taxes, and school finance act revenue. The majority of expenses were for instructional purposes which totaled \$48,416,643 out of a total of \$95,769,540.

Business type activities (Nutritional Services) decreased net assets by (\$6,265). Program revenues included \$1,950,550 in charges for services and \$821,234 in operating grants and contributions. All expenditures of \$2,778,049 were for food services.

FALCON SCHOOL DISTRICT 49 - Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES		(restated)				(restated)
Charges for service	1,902,977	1,943,212	1,950,550	1,774,399	3,853,527	3,717,611
Grants & contributions	15,294,622	5,804,921	821,234	711,835	16,115,856	6,516,756
GENERAL REVENUES						
Property Taxes	28,359,508	22,854,256	-	-	28,359,508	22,854,256
Specific ownership taxes	3,169,869	3,001,112	-	-	3,169,869	3,001,112
State equalization	59,948,169	55,487,866	-	-	59,948,169	55,487,866
Investment earnings	2,269,789	2,322,942	-	-	2,269,789	2,322,942
Miscellaneous revenues	1,901,364	241,054	-	-	1,901,364	241,054
TOTAL REVENUES	112,846,298	91,655,363	2,771,784	2,486,234	115,618,082	94,141,597
EXPENDITURES						
Instruction	48,416,643	42,710,638	-	-	48,416,643	42,710,638
Instructional Support	9,187,418	6,975,835	-	-	9,187,418	6,975,835
General administration	1,038,545	756,959	-	-	1,038,545	756,959
School administration	3,929,505	3,915,349	-	-	3,929,505	3,915,349
Business services	895,498	773,325	-	-	895,498	773,325
Maintenance & operations	8,725,131	7,016,176	-	-	8,725,131	7,016,176
Transportation	3,382,892	2,766,031	-	-	3,382,892	2,766,031
Central services	12,031,146	8,685,156	-	-	12,031,146	8,685,156
Other services	8,553	299,874	-	-	8,553	299,874
Interest expense	8,154,209	4,724,907	-	-	8,154,209	4,724,907
Food Service	-	-	2,778,049	2,369,402	2,778,049	2,369,402
TOTAL EXPENDITURES	95,769,540	78,624,250	2,778,049	2,369,402	98,547,589	80,993,652
Increase/(Decrease) in Net Assets	17,076,758	13,031,113	(6,265)	116,832	17,070,493	13,147,945
Beginning net Assets (restated)	44,247,464	31,216,351	1,390,350	1,273,518	45,637,814	32,489,869
TOTAL NET ASSETS	61,324,222	44,247,464	1,384,085	1,390,350	62,708,307	45,637,814

Financial Analysis of the Governmental Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$40,928,404.

The general fund is the chief operating fund of the District. At the end of the current fiscal year unreserved fund balance of the general fund was \$12,076,994 while total fund balance is \$23,216,948. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13.6% of total general fund expenditures, while total fund balance represents 26.1% of that same amount.

The Bond Redemption Fund remains in strong financial condition. The fund has an ample fund balance to make the December 1st principal and interest payments on the District's voter approved debt. The fund balance as of June 30, 2008 is \$8,065,491, which is entirely reserved for debt service. The fund balance represents coverage for 1.43 times the 2007-08 annual payments.

As a result of voters approving the November 2005 Mill Levy Override (MLO), the district sold the second and final set of Certificates of Participation (COP) in June 2007, with the associated revenue of \$40,835,772 recognized in August 2007. For the year, \$36,975,176 was spent on building projects according to the MLO provisions; particularly for Vista Ridge High School and New Falcon School. Including the related property tax revenue collection, MLO revenues exceeded expenditures by \$7,484,051, allowing the combined fund balance to grow accordingly to \$16,935,476 for the year ended June 30, 2008. Project work continues in the 2008-2009 fiscal year.

In 2007-2008, Falcon School District expended \$2,884,180 of local, state and federal grant funds, excluding charter school grant expenditures. Of these expenditures, \$1,732,753 were funds yet to be received from the granting authorities prior to the close of the fiscal year; being scheduled for receipt early in the 2008-2009 fiscal year.

General Fund Budgetary Highlights

The District approves the original budget in June based on enrollment projections for the following school year. In October, after a better estimate of enrollment can be made, adjustments are made to the budget. The District has been experiencing rapid growth for the last several years. The 2006-2007 to 2007-2008 growth was 5.3%

Some significant budget highlights include:

- Budgeted General Fund expenditures exceeded budgeted revenue by \$7,180,370. This represented a change of \$2,035,000 from the original budget. The increase was added to accommodate \$2,000,000 of mold mitigation work and a \$35,000 election cost allocation from El Paso County.
- Actual General Fund results for the 2007-2008 fiscal year showed expenses in excess of revenue by \$1,312,057, which was \$5,868,313 better than the final budget. The improvement came from both higher revenues (\$2,950,355) and lower than budgeted expenditures (\$2,917,958).

Revenue was impacted by higher collections of property tax revenue (net of decreased state equalization monies) of \$1,626,636, higher tuition, impact aid, and special education revenues of \$742,141 and other revenue variances of \$581,578, including interest income.

Expense variance highlights include a higher spend on Charter School PPR funding of \$1,675,340, offset by lower spending in Operations & Maintenance of \$1,204,231, lower spending in School Administration of \$377,133, and an unused contingency spend of \$3,137,002.

- Administration continued the practice of voluntarily discussing wage and benefit conditions with employee group representatives. The outcome was overwhelmingly approved by the employees. Moreover, the agreement means D-49 should be able to continue to attract and retain the best teachers in the Pikes Peak area.

Capital Assets and Debt Administration

Capital assets. The Falcon School District's investment in capital assets for governmental and business type activities as of June 30, 2008 amounts to \$173,727,009 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery, equipment, and vehicles. The total increase in the District's investment in capital assets for the current fiscal year was 36%, after a prior period adjustment of \$3,237,924. The June 30, 2007 balance in capital assets was restated to reflect a corrected capitalization of land throughout the district.

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

Addition of New Falcon High School

Construction in Progress:

Vista Ridge High School

New Falcon High School Athletics Complex

Patriot Learning Center Remodel

Investments in Capital Assets

	Balance @ 6/30/2008	Balance @ 6/30/2007 (restated)
Governmental Activities		
Land and Site Improvements	15,765,500	6,573,260
Buildings & Improvements	120,935,677	83,373,551
Equipment	5,068,537	5,192,670
Construction in Progress	31,550,479	32,581,754
Total capital assets, net	<u>173,320,193</u>	<u>127,721,235</u>
Business-Type Activities		
Equipment	<u>406,816</u>	<u>426,076</u>
Total capital assets, net	<u>406,816</u>	<u>426,076</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-Term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$155,349,959. Of this amount, \$53,150,000 is general obligation bonds for which there are a mill levy assessment to pay the debt, \$5,827,355 for capital leases, \$90,960,000 in certificates of participation and \$701,604 for compensated absences.

In November 2005, the taxpayers approved a mill levy override to pay for the construction of new facilities and additions to current facilities. The district sold certificates of participation in July 2006 and August 2007 to finance this construction and will pay the certificates back with the approved mill levy override.

State Statutes limit the amount of the District's general obligation bonded debt to 25% of the assessed value of the District. At the end of the current fiscal year, the District had total general obligation bonded debt of \$53,150,000 or 8.6% of assessed value. The district's legal debt limit and debt margin is \$155,007,118 and \$101,857,118 respectively.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

Economic Factors and 2008-2009 Budget

- The local, state, and federal economies have begun to stagnate. The District's assessed value increased over 22.9% in 2007 from the prior year to a total of \$620,028,470, due to the normal lag in recognizing assessed valuations as a revenue budget driver. The change in assessed values will moderate over the next few years.
- As a result of voters approving the November 2005 Mill Levy Override the district has engaged in a high volume of constructions projects, totaling over \$80.5 million. The majority of the new buildings and school expansions were constructed between 2005-2008; with few remaining projects to be completed in 2008-2009.
- The District must continue to work proactively with developers, the City of Colorado Springs, and El Paso County to confront the enrollment growth issue. Falcon School District has been the fastest growing school district in the state, based on enrollment, on a percentage basis, for the last several years. American School & University magazine listed the District as the 4th fastest growing from 1995 to 2005 of District with enrollments of 10,000 to 20,000.
- The District continues to work with Charter Schools. The District had three charter schools during the current fiscal year and one additional charter school opening for the 2008-2009 school year.
- The District ended the 2007-2008 school year with more than a 10% revenue to fund balance ratio, as mandated by school Board Policy. This equates to approximately one month of expenditures.
- The District is making a strategic change in handling insurance benefits in the 2008-09 fiscal year by going to a self-funded insurance model. This strategy is more appropriate for businesses this size rather than using a fully-insured model as has been the past practice.

Requests for Information

The financial report is designed to provide a general overview of Falcon School District's finances for those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Falcon School District 49, 10850 E. Woodmen Road, Falcon, CO 80831

BASIC FINANCIAL STATEMENTS

FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Charter
				Schools
ASSETS				
Cash and Investments	\$ 34,265,418	\$ 947,220	\$ 35,212,638	\$ 904,695
Restricted Cash and Investments	18,662,742	-	18,662,742	5,121,908
Receivables	3,426,494	62,491	3,488,985	276,683
Prepaid Expenses	-	-	-	15,150
Inventories	-	100,141	100,141	-
Debt Issuance Costs	2,032,558	-	2,032,558	591,192
Capital Assets Not Being Depreciated	47,315,979	-	47,315,979	-
Capital Assets Being Depreciated, Net	126,004,214	406,816	126,411,030	12,446,668
Total Assets	231,707,405	1,516,668	233,224,073	19,356,296
LIABILITIES				
Accounts Payable and Other Current Liabilities	4,209,963	4,053	4,214,016	1,312,064
Accrued Salaries and Benefits Payable	8,935,732	76,028	9,011,760	341,357
Deferred Revenues	1,361,580	-	1,361,580	298
Accrued Interest Payable	525,949	-	525,949	56,301
Long-term Liabilities				
Due or payable within one year	6,590,900	-	6,590,900	486,417
Due or payable after one year	148,759,059	52,502	148,811,561	16,956,228
Total Liabilities	170,383,183	132,583	170,515,766	19,152,665
NET ASSETS				
Invested in Capital Assets Net of Related Debt	29,439,037	406,816	29,845,853	(1,622,828)
Restricted for:				
TABOR (emergencies)	2,700,000	-	2,700,000	256,223
Debt Service	16,491,989	-	16,491,989	1,373,377
Capital Purposes	911,324	-	911,324	-
Repair and Replacement	-	-	-	25,270
Risk Management	89,240	-	89,240	-
Preschool	149,879	-	149,879	-
Unrestricted	11,542,753	977,269	12,520,022	171,589
Total Net Assets	\$ 61,324,222	\$ 1,384,085	\$ 62,708,307	\$ 203,631

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, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Charter Schools
Governmental Activities:								
Instruction	\$ 48,416,643	\$ 689,330	\$ 3,991,356	\$ 9,192,240	\$ (34,543,717)	\$ -	\$ (34,543,717)	\$ -
Instructional Support	9,187,418	474,170	1,268,781	-	(7,444,467)	-	(7,444,467)	-
General Administration	1,038,545		-	-	(1,038,545)	-	(1,038,545)	-
School Administration	3,929,505	-	-	-	(3,929,505)	-	(3,929,505)	-
Business Services	895,498	-	-	-	(895,498)	-	(895,498)	-
Maintenance and Operations	8,725,131	-	97,465	-	(8,627,666)	-	(8,627,666)	-
Transportation	3,382,892	-	734,285	-	(2,648,607)	-	(2,648,607)	-
Central Services	12,031,146	739,477	10,495	-	(11,281,174)	-	(11,281,174)	-
Other Services	8,553	-	-	-	(8,553)	-	(8,553)	-
Interest Expense	8,154,209	-	-	-	(8,154,209)	-	(8,154,209)	-
Total Governmental Activities	95,769,540	1,902,977	6,102,382	9,192,240	(78,571,941)	-	(78,571,941)	-
Business-Type Activities:								
Food Services	2,778,049	1,950,550	821,234	-	-	(6,265)	(6,265)	-
Total Business-Type Activities	2,778,049	1,950,550	821,234	-	-	(6,265)	(6,265)	-
Total Primary Government	\$ 98,547,589	\$ 3,853,527	\$ 6,923,616	\$ 9,192,240	(78,571,941)	(6,265)	(78,578,206)	-
Component Units	\$ 8,804,306	\$ 234,857	\$ 659,168	\$ 54,991				(7,855,290)
General Revenues:								
Property Taxes					28,359,508	-	28,359,508	-
Specific Ownership Taxes					3,169,869	-	3,169,869	-
State Equalization					59,948,169	-	59,948,169	-
Per Pupil Operating Revenue					-	-	-	7,619,232
Capital Construction Funding					-	-	-	85,729
Grants and Contributions not Restricted to Specific Programs					1,594,602	-	1,594,602	208,947
Investment Earnings					2,269,789	-	2,269,789	65,341
Miscellaneous					306,762	-	306,762	8,153
Total General Revenues					95,648,699	-	95,648,699	7,987,402
Change in Net Assets					17,076,758	(6,265)	17,070,493	132,112
Net Assets, As Restated, July 1					44,247,464	1,390,350	45,637,814	71,519
Net Assets, June 30					\$ 61,324,222	\$ 1,384,085	\$ 62,708,307	\$ 203,631

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

FALCON SCHOOL DISTRICT 49
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Grants	Bond Redemption	Building	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 25,385,722	\$ 26,298	\$ 7,903,739	\$ -	\$ 949,659	\$ 34,265,418
Restricted Cash and Investments	8,056,664	-	-	10,606,078	-	18,662,742
Property Tax Receivable	1,205,594	-	387,415	-	-	1,593,009
Accounts Receivable	71,905	1,751,739	-	6,174	3,667	1,833,485
Interfund Receivable	945,446	-	-	-	-	945,446
TOTAL ASSETS	<u>\$ 35,665,331</u>	<u>\$ 1,778,037</u>	<u>\$ 8,291,154</u>	<u>\$ 10,612,252</u>	<u>\$ 953,326</u>	<u>\$ 57,300,100</u>
LIABILITIES & FUND BALANCE						
LIABILITIES						
Accounts Payable	\$ 1,692,977	\$ 19,101	\$ -	\$ 1,877,611	\$ 42,002	\$ 3,631,691
Accrued Liabilities	553,668	-	-	-	-	553,668
Accrued Salaries and Benefits Payable	8,723,337	212,395	-	-	-	8,935,732
Compensated Absences Payable	24,604	-	-	-	-	24,604
Interfund Payable	-	945,446	-	-	-	945,446
Deferred Revenue - Property Tax	693,312	-	225,663	-	-	918,975
Deferred Revenue - Forward Purchase Agreement	708,573	-	-	-	-	708,573
Deferred Revenue - Other	51,912	601,095	-	-	-	653,007
TOTAL LIABILITIES	<u>12,448,383</u>	<u>1,778,037</u>	<u>225,663</u>	<u>1,877,611</u>	<u>42,002</u>	<u>16,371,696</u>
FUND BALANCE						
Reserved for:						
TABOR (emergencies)	2,700,000	-	-	-	-	2,700,000
Debt Service	8,200,835	-	8,065,491	-	-	16,266,326
Capital Purposes	-	-	-	8,734,641	911,324	9,645,965
Risk Management	89,240	-	-	-	-	89,240
Preschool	149,879	-	-	-	-	149,879
Unreserved, Reported in General Fund	12,076,994	-	-	-	-	12,076,994
TOTAL FUND BALANCE	<u>23,216,948</u>	<u>-</u>	<u>8,065,491</u>	<u>8,734,641</u>	<u>911,324</u>	<u>40,928,404</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 35,665,331</u>	<u>\$ 1,778,037</u>	<u>\$ 8,291,154</u>	<u>\$ 10,612,252</u>	<u>\$ 953,326</u>	<u>\$ 57,300,100</u>

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, 2008

Total fund balances--governmental funds	\$ 40,928,404
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.	173,320,193
Other long-term assets are not available to pay for current period expenditures and are therefore deferred in the governmental funds.	918,975
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.	(525,949)
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	\$ (55,634,709)
Certificates of Participation Payable	(93,186,291)
Capital leases payable	(5,827,355)
Debt issuance costs	2,032,558
Compensated absences	<u>(701,604)</u>
	<u>(153,317,401)</u>
Total net assets--governmental activities	<u><u>\$ 61,324,222</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, 2008

	General	Grants	Bond Redemption	Building	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 24,246,424	\$ -	\$ 6,833,113	\$ -	\$ -	\$ 31,079,537
Intergovernmental	63,166,371	2,884,180	-	-	-	66,050,551
Interest	827,763	-	151,935	1,290,091	-	2,269,789
Other	1,902,977	-	-	1,664,208	237,156	3,804,341
Total Revenues	<u>90,143,535</u>	<u>2,884,180</u>	<u>6,985,048</u>	<u>2,954,299</u>	<u>237,156</u>	<u>103,204,218</u>
EXPENDITURES						
Current						
Instruction	44,188,864	1,507,436	-	-	-	45,696,300
Student Support	4,329,951	396,919	-	-	-	4,726,870
Instructional Staff	3,588,686	871,862	-	-	-	4,460,548
General Administration	947,168	-	-	-	-	947,168
School Administration	3,929,505	-	-	-	-	3,929,505
Business Services	895,498	-	-	-	-	895,498
Operations and Maintenance	8,557,682	97,465	-	-	-	8,655,147
Student Transportaion	3,311,034	-	-	-	-	3,311,034
Central Support	4,362,767	10,498	-	-	-	4,373,265
Other Support	8,553	-	-	-	-	8,553
Capital Outlay	1,560,179	-	-	36,988,434	774,274	39,322,887
Charter Schools	7,656,621	-	-	-	-	7,656,621
Debt Service						
Principal Retirement	1,365,000	-	2,155,000	-	1,334,037	4,854,037
Interest and Fiscal Charges	4,183,082	-	3,513,136	-	404,046	8,100,264
Debt Issuance Costs	-	-	-	624,560	-	624,560
Total Expenditures	<u>88,884,590</u>	<u>2,884,180</u>	<u>5,668,136</u>	<u>37,612,994</u>	<u>2,512,357</u>	<u>137,562,257</u>
Excess of Revenues Over (Under) Expenditures	<u>1,258,945</u>	<u>-</u>	<u>1,316,912</u>	<u>(34,658,695)</u>	<u>(2,275,201)</u>	<u>(34,358,039)</u>
OTHER FINANCING SOURCES (USES)						
Debt Issued	-	-	-	39,725,000	-	39,725,000
Debt Premium	-	-	-	1,110,772	-	1,110,772
Transfers In	-	-	-	-	2,571,002	2,571,002
Transfers Out	(2,571,002)	-	-	-	-	(2,571,002)
Total Other Financing Sources (Uses)	<u>(2,571,002)</u>	<u>-</u>	<u>-</u>	<u>40,835,772</u>	<u>2,571,002</u>	<u>40,835,772</u>
Net Change in Fund Balances	(1,312,057)	-	1,316,912	6,177,077	295,801	6,477,733
Fund Balances, July 1	<u>24,529,005</u>	<u>-</u>	<u>6,748,579</u>	<u>2,557,564</u>	<u>615,523</u>	<u>34,450,671</u>
Fund Balances, June 30	<u>\$ 23,216,948</u>	<u>\$ -</u>	<u>\$ 8,065,491</u>	<u>\$ 8,734,641</u>	<u>\$ 911,324</u>	<u>\$ 40,928,404</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, 2008

Total net change in fund balances--governmental funds **\$ 6,477,733**

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	\$ 50,642,784	
Depreciation expense	<u>(5,043,826)</u>	45,598,958

Revenues that do not provide current financial resources are deferred in the governmental funds. This amount represents the change in deferred property taxes. 449,840

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.

Debt Proceeds and Registered Coupons	\$ (39,725,000)	
Debt Premium	(1,110,772)	
Debt Issuance Costs	<u>624,560</u>	(40,211,212)

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	\$ 2,155,000	
GO Bond Registered Coupons payment	960,000	
Certificates of Participation principal payment	1,365,000	
Capital Lease principal payment	<u>1,334,037</u>	5,814,037

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 change in accrued interest reported in the statement of activities. (246,185)

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	(767,760)
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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.

(38,653)

Change in net assets of governmental activities

\$ 17,076,758

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

FALCON SCHOOL DISTRICT 49
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

	Business Type Activities Food Services
ASSETS	
Current Assets	
Cash and Investments	\$ 947,220
Accounts Receivable	62,491
Inventories	<u>100,141</u>
Total Current Assets	1,109,852
Noncurrent Assets	
Capital assets	
Equipment, net of Accumulated Depreciation	<u>406,816</u>
Total Assets	<u>1,516,668</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	4,053
Accrued Salaries and Benefits Payable	<u>76,028</u>
Total Current Liabilities	80,081
Noncurrent Liabilities	
Compensated Absences Payable	<u>52,502</u>
Total Liabilities	<u>132,583</u>
NET ASSETS	
Invested in capital assets	406,816
Unrestricted	<u>977,269</u>
Total Net Assets	<u><u>\$ 1,384,085</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, 2008

	Business Type Activities
	Food Services
OPERATING REVENUES	
Local Sources	\$ 1,950,550
Total Operating Revenues	<u>1,950,550</u>
OPERATING EXPENSES	
Salaries	819,944
Employee Benefits	169,046
Purchased Services	123,193
Purchased Food	1,572,020
Other	26,081
Depreciation	67,765
Total Operating Expenses	<u>2,778,049</u>
OPERATING INCOME (LOSS)	<u>(827,499)</u>
NON-OPERATING REVENUES	
School Lunch and Breakfast	627,821
Donated Commodities	166,025
State Match	27,388
Total Non-Operating Revenues	<u>821,234</u>
Change in Net Assets	(6,265)
Net Assets, July 1	<u>1,390,350</u>
Net Assets, June 30	<u><u>\$ 1,384,085</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, 2008

	Business Type Activities Food Services
Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 1,950,550
Payments to Suppliers	(1,463,307)
Payments to Employees	(980,803)
Net Cash Used by Operating Activities	(493,560)
Cash Flows from Non-capital Financing Activities	
National School Lunch and Breakfast	616,356
State Reimbursements	27,388
Net Cash Used by Non-Capital Financing Activities	643,744
Cash Flows from Capital and Related Financing Activities	
Purchase of Equipment	(48,505)
Net Cash Used by Non-Capital Financing Activities	(48,505)
Net Decrease in Cash and Cash Equivalents	101,679
Cash and Cash Equivalents, July 1	845,541
Cash and Cash Equivalents, June 30	\$ 947,220
Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities	
Operating Loss	\$ (827,499)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities	
Depreciation Expense	67,765
Donated Commodities	166,025
Change in Inventories	89,032
Change in Accounts Payable	2,930
Change in Accrued Salaries and Benefits Payable	4,030
Change in Compensated Absences Payable	4,157
Net Cash Used by Operating Activities	\$ (493,560)
Non-cash Activities	
Donated Commodities	\$ 166,025

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

FALCON SCHOOL DISTRICT 49
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008

	<u>Trust</u> <u>Scholarship</u>	<u>Agency</u> <u>Pupil Activity</u>
ASSETS		
Cash and Investments	\$ 12,590	\$ 855,873
Accounts Receivable	31	-
	<u>12,621</u>	<u>855,873</u>
Total Assets		
LIABILITIES		
Due to Student Organizations	-	855,873
	<u>-</u>	<u>855,873</u>
Total Liabilities		
NET ASSETS		
Held in Trust for Scholarship Recipients	12,621	-
	<u>12,621</u>	<u>-</u>
Total Net Assets	<u>\$ 12,621</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
SCHOLARSHIP FUND
For the Year Ended June 30, 2008

	<u>Scholarship</u>
ADDITIONS	
Fundraising Activities	<u>\$ 10,506</u>
Total Additions	<u>10,506</u>
Change in Net Assets	10,506
Net Assets, July 1	<u>2,115</u>
Net Assets, June 30	<u><u>\$ 12,621</u></u>

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

NOTES TO FINANCIAL STATEMENTS

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 Principles (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, Banning Lewis Ranch Academy, Rocky Mountain Classical Academy. The three charter schools are presented as discretely presented component units and are presented in a separate column in the district-wide financial statements to emphasize that they are legally separate from the District.

Discretely Presented Component Units. The charter schools educate children within the District's jurisdiction. A parent group elects members of its governing board. The charter schools provide services primarily to students within the District and are dependent upon the District for the majority of funding. In addition, the nature and significance of the charter schools' relationship with the District are such that exclusion would cause the District's financial statements to be incomplete, although they are considered non-major for financial reporting purposes. Separate financial statements for the charter schools may be obtained by contacting the schools at the following addresses:

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

A. Reporting Entity (continued)

Pikes Pike School of Expeditionary Learning
5450 Meridian Road
Peyton, Colorado 80831

Banning Lewis Ranch Academy
7094 Cottonwood Tree Drive
Colorado Springs, Colorado 80927

Rocky Mountain Classical Academy
1710 Piros Drive
Colorado Springs, Colorado 80915

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, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 financial 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, except for grants which have a longer period of availability. 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.

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 fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

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.

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.

Grants Fund – used to account for revenues and expenditures of specific local, state, and federal grant awards.

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.

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 nonmajor enterprise fund.

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

Additionally, the District reports the following fiduciary fund types:

Private-Purpose Trust Fund - 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.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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 reported 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 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 but not yet collected are identified as property taxes receivable, and are presented net of an allowance for uncollectible taxes. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Inventories

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

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

Capital Assets

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

Maintenance, repairs, and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. 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 proprietary funds.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
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.

Accrued Salaries and 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 accrued compensation is reflected as a liability in the accompanying 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.

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. Debt premiums and issuance costs are deferred and amortized over the life of the debt using the straight-line method. 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 compensated absences are serviced from property taxes and other revenues primarily of the General Fund.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

Long-Term Obligations (Continued)

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

Vacation Payable

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

Personal Leave

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

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

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

Personal Leave (Continued)

The District has recorded a liability for unpaid compensated absences owed to retired teachers in the accompanying financial statements of the General Fund for those amounts that are due and payable at year end.

Net Assets / Fund Balances

In the government-wide financial statements and the proprietary fund in the fund 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 2008 were certified in December 2007 and were available for collection on January 1, 2008.

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, 2008

NOTE 2 **CASH AND INVESTMENTS**

At June 30, 2008, the District had the following cash and investments:

Cash on Hand	\$ 590
Deposits	3,365,395
Investments	<u>51,377,858</u>
Total	<u>\$ 54,743,843</u>

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

Cash and Investments	\$ 35,212,638
Restricted Cash and Investments	18,662,742
Fiduciary Funds	<u>868,463</u>
Total	<u>\$ 54,743,843</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA), requires that all local government entities 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, 2008 the District had bank deposits of \$4,304,713, collateralized with securities held by the financial institutions' agents but not in the District's name.

Investments

At June 30, 2008, the District had the following investments:

Investment	Maturity	Fair Market Value
Local Government Investment Pool		
COLOTRUST	N/A	\$33,273,860
JP Morgan U.S. Government		
Money Market Fund	N/A	5,093,233
UMB Bank Prime Money Market		
Fund	N/A	1,805,110
Federated Gov't Obligation Money		
Market Fund	N/A	8,656,272
AIG Funding Inc. Commercial Paper	12/01/08	1,907,503
GE Capital Commercial Paper	12/01/08	<u>641,880</u>
Total		<u>\$51,377,858</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

Investments (Continued)

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.

- 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

The District has invested \$33,273,860 in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an "AAAm" (Standard and Poor's) rated investment vehicle established by state statute for local government entities in Colorado to pool funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating the pool. 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. The custodian's internal records identify the investments owned by the participating governments. Investments of COLOTRUST are limited to those allowed by State Statute.

Interest Rate Risk – State statutes limit investments in commercial paper to an original maturity of no greater than three years. State statutes generally limit other investments to original maturities of five years.

Credit Risk – State statutes limit investments in commercial paper to those that carry at least two credit ratings issued by nationally recognized statistical rating organizations ("NRSROs") and must not be rated below A1, P1, or F1. At June 30, 2008, the District's investment in AIG Funding Inc. Commercial Paper was rated Aa3 by Standard & Poor's and A1+ by Moody's Investor Services. At June 30, 2008, the District's investment in GE Capital Commercial Paper was rated AAA by Standard & Poor's and A1+/P1 by Moody's Investor Services.

State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a NRSRO. At June 30, 2008, the District's investment in the JP Morgan U.S. Government Money Market Fund, the Federated Government Obligation Money Market Fund, and the UMB Bank Prime Money Market Fund were rated AAAM by Standard & Poor's.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

Restricted Cash and Investments

Cash and investments of \$18,662,742, representing unspent bond proceeds of \$10,606,078 and mill levy override funds of \$8,056,664, have been restricted for equipment, building improvements and debt service in the General and Building Funds.

NOTE 3 **CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balances As Restated 06-30-07	Additions	Deletions	Balances 06-30-08
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 6,573,260	\$ 9,192,240	\$ -	\$ 15,765,500
Construction in process	32,581,754	30,229,904	31,261,179	31,550,479
Total capital assets not being depreciated	39,155,014	39,422,144	31,261,179	47,315,979
Capital assets being depreciated:				
Buildings and improvements	104,550,215	41,748,045	-	146,298,260
Equipment	9,543,165	733,774	229,960	10,046,979
Total capital assets being depreciated	114,093,380	42,481,819	229,960	156,345,239
Less accumulated depreciation for:				
Buildings and improvements	21,176,664	4,185,919	-	25,362,583
Equipment	4,350,495	857,907	229,960	4,978,442
Total accumulated depreciation	25,527,159	5,043,826	229,960	30,341,025
Total capital assets being depreciated, net	88,566,221	37,437,993	-	126,004,214
Governmental Activities capital assets, net	\$ 127,721,235	\$ 76,860,137	\$ 31,261,179	\$ 173,320,193
Business-type Activities				
Capital assets being depreciated:				
Equipment	\$ 911,111	\$ 48,505	\$ 2,700	\$ 956,916
Less accumulated depreciation for:				
Equipment	485,035	67,765	2,700	550,100
Business-type Activities capital assets, net	\$ 426,076	\$ (19,260)	\$ -	\$ 406,816

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 **CAPITAL ASSETS (continued)**

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

Governmental Activities:

Instruction	\$ 4,457,992
General Administration	91,377
Operation and Maintenance	69,984
Student Transportation	423,213
Business	1,260
	<hr/>
Total Depreciation Expense – Governmental Activities	<u>\$ 5,043,826</u>

Business – Type Activities:

Food Services	<u>\$ 67,765</u>
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NOTE 4 **INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS**

	Due From	Due To	Amount
Grants		General	\$ 945,446

Interfund Receivables and Payables

During the year, the General Fund covered operating expenditures for the Grants Fund. The General Fund Balances are routinely cleared as a matter of practice. These amounts are expected to be paid back within one year.

Transfers

The District is required to allocate \$292 per funded pupil for insurance and capital expenditures. During the year ended June 30, 2008, the General Fund transferred \$2,571,002 to the Capital Reserve Fund to partially comply with this statute.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 LONG TERM LIABILITIES

Long-term debt activity for the year ended June 30, 2008 was as follows:

	Balances 06/30/07	Additions	Deletions	Balances 06/30/08	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 55,305,000	\$ -	\$ 2,155,000	\$ 53,150,000	\$ 2,520,000
Registered Coupons	4,522,263	-	804,947	3,717,316	1,069,990
Accreted Interest	279,764	567,137	155,053	691,848	358,420
Bond Premiums	2,162,944	-	184,617	1,978,327	-
Loss on Refunding	(4,275,315)	-	(372,533)	(3,902,782)	-
Total	57,994,656	567,137	2,927,084	55,634,709	3,948,410
Certificates of Participation	52,600,000	39,725,000	1,365,000	90,960,000	1,495,000
COP Premium	1,226,345	1,110,772	110,826	2,226,291	-
Capital Lease Obligations	7,161,392	-	1,334,037	5,827,355	1,147,490
Compensated Absences	662,951	38,653	-	701,604	-
Total Governmental Activities	\$119,645,344	\$ 41,441,562	\$ 5,736,947	\$155,349,959	\$ 6,590,900
Business-type Activities					
Compensated Absences	\$ 48,345	\$ 4,157	\$ -	\$ 52,502	\$ -

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, 2008

NOTE 5 **LONG TERM LIABILITIES (continued)**

<u>\$12,675,000, 2006B General Obligation Refunding Bonds</u> interest due semi-annually with rates ranging from 4.0% to 5.0%, principal due annually through 2018 in payments of \$400,000 to \$1,820,000.	\$ 12,675,000
<u>\$23,315,000, 2006 General Obligation Refunding Bonds</u> interest due semi-annually with rates ranging from 3.55% to 5.0%, principal due annually through 2021 in payments of \$1,800,000 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 5.0%, principal due annually through 2015 in payments of \$10,000 to \$1,795,000.	10,640,000
<u>\$28,000,000, 2002 General Obligation Bonds</u> interest due semi-annually with rates ranging from 3.50% to 5.75%, principal due annually through 2021 in payments of \$5,000 to \$2,920,000.	3,885,000
<u>\$15,700,000, 1999 General Obligation Refunding and Improvement Bonds</u> interest due semi-annually with rates ranging from 3.25% to 6.0%, principal due annually through 2018 in payments of \$25,000 to \$1,840,000.	1,465,000
<u>\$15,800,000, 1996 General Obligation Bonds</u> interest due semi-annually with rates ranging from 3.8% to 6.5%, principal due annually through 2015 in payments of \$100,000 to \$1,790,000.	<u>1,170,000</u>
Total general obligation bonded debt	<u>53,150,000</u>
 \$1,387,217 registered coupons, in conjunction with Series 2006B G.O. Refunding Bonds, yielding between 3.65% to 3.8% due annually through 2010 in amounts of \$165,000 to \$705,000.	 904,583
 \$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 \$125,000 to \$475,000.	 544,155
 \$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 \$145,000 to \$350,000.	 389,456
 \$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>1,879,122</u>
Total registered coupons	<u>3,717,316</u>
Accrued interest on registered coupons	<u>691,848</u>
Total	<u>\$ 57,559,164</u>

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 **LONG TERM LIABILITIES (continued)**

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 2,520,000	\$ 2,366,833	\$ 4,886,833
2010	2,695,000	2,240,818	4,935,818
2011	2,850,000	2,119,806	4,969,806
2012	4,000,000	1,936,806	5,936,806
2013	4,655,000	1,778,706	6,433,706
2014 – 2018	23,945,000	5,625,753	29,570,753
2019 – 2022	12,485,000	1,123,588	13,608,588
Total	\$ 53,150,000	\$ 17,192,310	\$ 70,342,310

Certificates of Participation

In July 2006, the District issued \$53,400,000 Certificates of Participation. Principal payments are due annually on December 15 and interest payments are due on June 15 and December 15, through December 2030. Interest accrues at rates ranging from 4.25% to 5.00%. Proceeds of the Certificates were used to finance the construction of new schools and renovations and additions to existing schools.

In August 2007, the District issued \$39,725,000 Certificates of Participation. Principal payments are due annually on December 15 and interest payments are due on June 15 and December 15, through December 2030. Interest accrues at rates ranging from 4.00% to 5.00%. Proceeds of the Certificates were used to finance the construction of new schools and renovations and additions to existing schools. Future debt service requirements of the certificates of participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 1,495,000	\$ 4,396,638	\$ 5,891,638
2010	1,630,000	4,332,044	5,962,044
2011	1,745,000	4,261,262	6,006,262
2012	1,875,000	4,184,338	6,059,338
2013	2,045,000	4,101,037	6,146,037
2014 – 2018	13,195,000	18,872,118	32,067,118
2019 – 2023	19,440,000	14,942,938	34,382,938
2024 – 2028	27,800,000	9,076,581	36,876,581
2029 – 2031	21,735,000	1,638,678	23,373,678
Total	\$ 90,960,000	\$ 65,805,634	\$ 156,765,634

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 **LONG TERM LIABILITIES (continued)**

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 \$11,081,147 have been capitalized under these leases.

Capital lease obligations at June 30, 2008, are comprised of the following:

	Balances 06-30-07	Additions	Deletions	Balances 06-30-08	Due Within One Year
2006 Modular Lease (\$1,199,071)	\$ 927,036	\$ -	\$ 114,379	\$ 812,657	\$ 119,926
2006 Equipment Lease (\$933,000)	255,026	-	168,010	87,016	87,016
2004 Equipment Leases (\$1,764,134)	977,554	-	181,585	795,969	191,626
2002 Equipment Lease (\$734,942)	411,426	-	74,569	336,857	78,242
2002 Land and Modular Leases (4,500,000)	3,017,399	-	310,789	2,706,610	327,317
2001 Equipment Leases (\$1,273,347)	157,005	-	157,005	-	-
2000 Modular Lease (\$2,011,857)	1,415,946	-	327,700	1,088,246	343,363
Total	\$ 7,161,392	\$ -	\$ 1,334,037	\$ 5,827,355	\$ 1,147,490

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 1,147,490	\$ 299,355	\$ 1,446,845
2010	1,116,107	241,651	1,357,758
2011	1,174,692	183,066	1,357,758
2012	706,765	121,371	828,136
2013	647,247	86,057	733,304
2014– 2017	1,035,054	118,028	1,153,082
Total	\$ 5,827,355	\$ 1,049,528	\$ 6,876,883

Defeased Debt

In the prior year, the District defeased \$35,880,000 of the General Obligation Bonds, Series 1999A, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The outstanding balance of all defeased debt at June 30, 2008 was \$35,880,000.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 **DEFINED BENEFIT PENSION PLAN**

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

PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to Colorado PERA, 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 11.15% of covered salary from July 1, 2007 through January 31, 2008, and 12.05% thereafter. A portion of the District's contribution (1.02% of covered salary) is allocated for the Health Care Trust Fund (See Note 7). The District's contributions to the SDTF for the years ending June 30, 2008, 2007, and 2006 were \$5,538,988, \$4,585,471, and \$4,107,597 respectively, equal to the required contributions.

NOTE 7 **POSTEMPLOYMENT HEALTH-CARE BENEFITS**

Plan Description – 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 Colorado PERA 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, 2008, 2007, and 2006 were \$489,754, \$428,994, and \$397,718 respectively, equal to their required contributions.

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 **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 9 **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, 2008, 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 the District 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, 2008

NOTE 9 **COMMITMENTS AND CONTINGENCIES (continued)**

TABOR Amendment (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, 2008 the District reserved \$2,300,000 in the General Fund for this purpose.

Litigation

The District is involved in litigation related to a construction project. The outcome of this litigation is unknown at this time.

NOTE 10 **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 balance treated as deferred revenue as of and for the year ended June 30, 2008:

	<u>Revenue</u> <u>Recognized</u>	<u>Balance</u> <u>(Deferred</u> <u>Revenue)</u>
Fiscal Year Ending June 30, 2008	\$ 88,572	\$ 708,573

FALCON SCHOOL DISTRICT 49
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 11 **RESTATEMENT**

During the year ended June 30, 2008, the District identified and adjusted the value of the land owned by the District in the Governmental Activities. Capital Assets and Net Assets at June 30, 2007, were restated as follows:

	Governmental Activities
Balance, June 30, 2007, as Originally Stated	\$ 41,009,540
Land	<u>3,237,924</u>
Balance, June 30, 2007, as Restated	<u><u>\$ 44,247,464</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

FALCON SCHOOL DISTRICT 49
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
<u>Local Sources:</u>				
Property Taxes	\$ 17,817,147	\$ 17,817,147	\$ 21,070,995	\$ 3,253,848
Specific Ownership Taxes	2,700,000	2,700,000	3,169,869	469,869
Earnings on Investments	629,737	629,737	827,763	198,026
Delinquent Taxes and Interest	-	-	5,560	5,560
Tuition	400,000	400,000	689,330	289,330
Other	875,000	875,000	1,213,647	338,647
<u>State Sources:</u>				
Equalization	62,045,250	62,045,250	59,948,169	(2,097,081)
Transportation	675,000	675,000	734,285	59,285
Vocational Education	180,000	180,000	54,316	(125,684)
Special Education	1,561,546	1,561,546	1,772,978	211,432
ELPA	7,000	7,000	18,677	11,677
Gifted and Talented	62,500	62,500	106,624	44,124
ROTC	-	-	129,943	129,943
<u>Federal Sources:</u>				
Impact Aid	160,000	160,000	401,379	241,379
Other	80,000	80,000	-	(80,000)
Total Revenues	87,193,180	87,193,180	90,143,535	2,950,355
EXPENDITURES				
<u>Instructional</u>	43,044,747	43,448,664	44,188,864	(740,200)
<u>Support Services</u>				
Student Support	4,770,308	4,347,388	4,329,951	17,437
Instructional Staff	3,581,537	3,600,540	3,588,686	11,854
General Administration	627,696	662,696	947,168	(284,472)
School Administration	4,306,638	4,306,638	3,929,505	377,133
Business Services	979,183	979,183	895,498	83,685
Operations and Maintenance	7,762,003	9,762,003	8,557,682	1,204,321
Student Transportation	3,142,708	3,142,708	3,311,034	(168,326)
Central Support	4,468,744	4,468,744	4,362,767	105,977
Other Support	6,000	6,000	8,553	(2,553)
Facilities Acquisition/Construction	1,450,780	1,450,780	1,560,179	(109,399)
Charter Schools	5,981,281	5,981,281	7,656,621	(1,675,340)
Debt Service				
Principal Retirement	1,315,000	1,315,000	1,365,000	(50,000)
Interest and Fiscal Charges	4,240,310	4,240,310	4,183,082	57,228
Total Support Services	42,632,188	44,263,271	44,695,726	(432,455)
Reserves	3,137,002	3,137,002	-	3,137,002
Total Expenditures	88,813,937	90,848,937	88,884,590	1,964,347
Revenues Over Expenditures	(1,620,757)	(3,655,757)	1,258,945	4,914,702
Other Financing Sources (Uses)				
Transfers Out	(3,524,613)	(3,524,613)	(2,571,002)	953,611
Total Other Financing Sources (Uses)	(3,524,613)	(3,524,613)	(2,571,002)	953,611
Net Change in Fund Balance	(5,145,370)	(7,180,370)	(1,312,057)	5,868,313
Fund Balance, July 1	21,091,847	21,091,847	24,529,005	3,437,158
Fund Balance, June 30	\$ 15,946,477	\$ 13,911,477	\$ 23,216,948	\$ 9,305,471

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, 2008

	Original And Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Local Sources	\$ 40,000	\$ 125,212	\$ 85,212
State Sources	216,903	396,413	179,510
Federal Sources	4,743,097	2,362,555	(2,380,542)
TOTAL REVENUES	5,000,000	2,884,180	(2,115,820)
EXPENDITURES			
Salaries	1,554,136	1,322,097	232,039
Benefits	322,464	286,278	36,186
Purchased Services	877,522	890,357	(12,835)
Supplies	1,896,597	229,743	1,666,854
Property and Equipment	344,104	118,980	225,124
Other	5,177	36,725	(31,548)
TOTAL EXPENDITURES	5,000,000	2,884,180	2,115,820
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
Fund Balance, June 30	\$ -	\$ -	\$ -

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FALCON SCHOOL DISTRICT 49
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

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 all funds.

All appropriations lapse at the end of each fiscal year.

Legal Compliance

For the year ended June 30, 2008, the Pupil Activity Agency Fund expenditures exceeded the budgeted amounts by \$295,708. This may be a violation of State statute.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

Capital Projects Fund

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

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

FALCON SCHOOL DISTRICT 49
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue</u> <u>Capital Reserve</u>	<u>Capital Projects</u> <u>Capital Reserve</u>	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	\$ 357,477	\$ 592,182	\$ 949,659
Accounts Receivable	3,667	-	3,667
TOTAL ASSETS	<u>\$ 361,144</u>	<u>\$ 592,182</u>	<u>\$ 953,326</u>
LIABILITIES & FUND BALANCE			
LIABILITIES			
Accounts Payable	10,184	31,818	42,002
TOTAL LIABILITIES	<u>10,184</u>	<u>31,818</u>	<u>42,002</u>
FUND BALANCE			
Reserved for Capital Purposes	350,960	560,364	911,324
Total Reserved Fund Balance	<u>350,960</u>	<u>560,364</u>	<u>911,324</u>
TOTAL FUND BALANCE	<u>350,960</u>	<u>560,364</u>	<u>911,324</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 361,144</u>	<u>\$ 592,182</u>	<u>\$ 953,326</u>

See the accompanying Independent Auditors' Report.

FALCON SCHOOL DISTRICT 49
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<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			
Other	\$ 67,172	\$ 169,984	\$ 237,156
Total Revenues	<u>67,172</u>	<u>169,984</u>	<u>237,156</u>
EXPENDITURES			
Current			
Capital Outlay	568,306	205,968	774,274
Debt Service			
Principal Retirements	1,334,037	-	1,334,037
Interest and Fiscal Charges	404,046	-	404,046
Total Expenditures	<u>2,306,389</u>	<u>205,968</u>	<u>2,512,357</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,239,217)</u>	<u>(35,984)</u>	<u>(2,275,201)</u>
OTHER FINANCING SOURCES			
Transfers In	2,571,002	-	2,571,002
Total Other Financing Sources	<u>2,571,002</u>	<u>-</u>	<u>2,571,002</u>
Net Change in Fund Balance	331,785	(35,984)	295,801
Fund Balance, July 1	<u>19,175</u>	<u>596,348</u>	<u>615,523</u>
Fund Balance, June 30	<u><u>\$ 350,960</u></u>	<u><u>\$ 560,364</u></u>	<u><u>\$ 911,324</u></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
For the Year Ended June 30, 2008

	Original And Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Interest	\$ 45,000	\$ -	\$ (45,000)
Other	55,250	67,172	11,922
Total Revenue	<u>100,250</u>	<u>67,172</u>	<u>(33,078)</u>
EXPENDITURES			
Capital Outlay:			
Buildings	850,878	568,306	282,572
Debt service			
Principal Retirements	1,850,944	1,334,037	516,907
Interest and Fiscal Charges	-	404,046	(404,046)
Total Expenditures	<u>2,701,822</u>	<u>2,306,389</u>	<u>395,433</u>
Excess of Revenues Over (Under) Expenditures	(2,601,572)	(2,239,217)	362,355
OTHER FINANCING SOURCES (USES)			
Transfers In	2,624,613	2,571,002	(53,611)
Net Change in Fund Balance	23,041	331,785	308,744
Fund Balance, July 1	<u>33,017</u>	<u>19,175</u>	<u>(13,842)</u>
Fund Balance, June 30	<u>\$ 56,058</u>	<u>\$ 350,960</u>	<u>\$ 294,902</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 FUND
For the Year Ended June 30, 2008

	Original And Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Property Taxes	\$ 5,818,141	\$ 6,833,113	\$ 1,014,972
Interest	75,000	151,935	76,935
Total Revenues	<u>5,893,141</u>	<u>6,985,048</u>	<u>1,091,907</u>
EXPENDITURES			
Debt Service			
Principal Retirement	1,315,000	2,155,000	(840,000)
Interest and Fiscal Charges	<u>6,032,527</u>	<u>3,513,136</u>	<u>2,519,391</u>
Total Expenditures	<u>7,347,527</u>	<u>5,668,136</u>	<u>1,679,391</u>
Net Change in Fund Balance	(1,454,386)	1,316,912	2,771,298
Fund Balance, July 1	<u>6,955,587</u>	<u>6,748,579</u>	<u>(207,008)</u>
Fund Balance, June 30	<u>\$ 5,501,201</u>	<u>\$ 8,065,491</u>	<u>\$ 2,564,290</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 PROJECTS FUND
For the Year Ended June 30, 2008

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Fees in Lieu of Land	\$ 50,000	\$ 156,184	\$ 106,184
Other	-	13,800	13,800
Total Revenues	50,000	169,984	119,984
EXPENDITURES			
Capital Outlay	400,000	205,968	194,032
Total Expenditures	400,000	205,968	194,032
Net Change in Fund Balance	(350,000)	(35,984)	314,016
Fund Balance, July 1	627,649	596,348	(31,301)
Fund Balance, June 30	\$ 277,649	\$ 560,364	\$ 282,715

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 FUND
For the Year Ended June 30, 2008

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES			
Interest	\$ 1,000,000	\$ 1,290,091	\$ 290,091
Other	-	1,664,208	1,664,208
Total Revenues	<u>1,000,000</u>	<u>2,954,299</u>	<u>1,954,299</u>
EXPENDITURES			
Debt service			
Debt Issuance Costs	-	624,560	(624,560)
Capital Outlay:			
Buildings	49,324,057	36,988,434	12,335,623
Contingency	239,238	-	239,238
Total Expenditures	<u>49,563,295</u>	<u>37,612,994</u>	<u>11,950,301</u>
Excess of Revenues Over (Under) Expenditures	<u>(48,563,295)</u>	<u>(34,658,695)</u>	<u>13,904,600</u>
OTHER FINANCING SOURCES			
Debt Issued	38,250,000	40,835,772	2,585,772
Transfers In	750,000	-	(750,000)
Total Other Financing Sources	<u>39,000,000</u>	<u>40,835,772</u>	<u>1,835,772</u>
Net Change in Fund Balance	(9,563,295)	6,177,077	15,740,372
Fund Balance, July 1	<u>9,563,295</u>	<u>2,557,564</u>	<u>(7,005,731)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ 8,734,641</u>	<u>\$ 8,734,641</u>

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, 2008

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
OPERATING REVENUES			
Local Sources			
Charges for Services	\$ 1,800,000	\$ 1,950,550	\$ 150,550
Total Operating Revenues	1,800,000	1,950,550	150,550
OPERATING EXPENSES			
Salaries	825,000	819,944	5,056
Employee Benefits	152,500	169,046	(16,546)
Purchased Services	94,100	123,193	(29,093)
Purchased Food	1,090,000	1,572,020	(482,020)
Other	206,500	26,081	180,419
Indirect Costs	25,000	-	25,000
Equipment Replacement	46,500	48,505	(2,005)
Depreciation	69,922	67,765	2,157
Contingency	574,407	-	574,407
Total operating expenses	3,083,929	2,826,554	257,375
Operating Income (Loss)	(1,283,929)	(876,004)	407,925
NON-OPERATING REVENUES			
Federal Sources			
School Lunch and Breakfast Program	550,225	627,821	77,596
Donated Commodities	110,000	166,025	56,025
State Match	20,000	27,388	7,388
Total Non-operating Revenues	680,225	821,234	141,009
Change in net assets, Budgetary Basis	\$ (603,704)	(54,770)	\$ 548,934
ADJUSTMENTS TO GAAP BASIS			
Equipment Replacement		48,505	
Change in net assets, GAAP Basis		(6,265)	
Net Assets, July 1		1,390,350	
Net Assets, June 30		\$ 1,384,085	

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, 2008

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
ADDITIONS			
Fundraising Activities	\$ 408	\$ 10,506	\$ 10,098
DEDUCTIONS			
Scholarships Awarded	1,000	-	1,000
Change in Net Assets	(592)	10,506	11,098
Net Assets, July 1	2,081	2,115	34
Net Assets, June 30	<u>\$ 1,489</u>	<u>\$ 12,621</u>	<u>\$ 11,132</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, 2008

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS				
Cash and Investments	\$ 941,199	\$ 3,180,382	\$ 3,265,708	\$ 855,873
TOTAL ASSETS	<u>\$ 941,199</u>	<u>\$ 3,180,382</u>	<u>\$ 3,265,708</u>	<u>\$ 855,873</u>
LIABILITIES				
Due to Student Organizations	\$ 941,199	\$ 3,180,382	\$ 3,265,708	\$ 855,873
TOTAL LIABILITIES	<u>\$ 941,199</u>	<u>\$ 3,180,382</u>	<u>\$ 3,265,708</u>	<u>\$ 855,873</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, 2008

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
ADDITIONS			
Pupil Activities	\$ 3,000,000	\$ 3,180,382	\$ 180,382
DEDUCTIONS			
Pupil Activities	2,970,000	3,265,708	(295,708)
Change in Due to Student Organizations	30,000	(85,326)	(115,326)
Due to Student Organizations, July 1	929,548	941,199	11,651
Due to Student Organizations, June 30	<u>\$ 959,548</u>	<u>\$ 855,873</u>	<u>\$ (103,675)</u>

See the accompanying Independent Auditors' Report.

FALCON SHOOOL DISTRICT 49
 COMPONENT UNITS
 COMBINING STATEMENT OF NET ASSETS
 June 30, 2008

	Pikes Peak School of Expeditionary Learning	Banning Lewis Ranch Academy	Rocky Mountain Classical Academy	Total
ASSETS				
Cash and Investments	\$ 282,331	\$ 581,636	\$ 40,728	\$ 904,695
Restricted Cash and Investments	4,302,396	819,512	-	5,121,908
Accounts Receivable	13,805	70,862	192,016	276,683
Prepaid Expenses	-	15,150	-	15,150
Debt Issuance Costs	285,658	227,432	78,102	591,192
Capital Assets, Net of Accumulated Depreciation	2,871,335	6,497,956	3,077,377	12,446,668
TOTAL ASSETS	7,755,525	8,212,548	3,388,223	19,356,296
LIABILITIES				
Accounts Payable and Other Current Liabilities	544,996	294,807	260,007	1,099,810
Retainage Payable	212,254	-	-	212,254
Accrued Salaries & Benefits Payable	99,809	143,498	98,050	341,357
Deferred Revenues	298	-	-	298
Accrued Interest Payable	35,885	20,416	-	56,301
Long-term Liabilities				
Due or payable within one year	-	205,544	280,873	486,417
Due or payable after one year	6,500,000	7,911,790	2,544,438	16,956,228
TOTAL LIABILITIES	7,393,242	8,576,055	3,183,368	19,152,665
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	(474,467)	(1,400,427)	252,066	(1,622,828)
Restricted for Emergencies	53,800	109,123	93,300	256,223
Restricted for Debt Service	649,220	724,157	-	1,373,377
Restricted for Repair and Replacement	-	25,270	-	25,270
Unrestricted	133,730	178,370	(140,511)	171,589
TOTAL NET ASSETS	\$ 362,283	\$ (363,507)	\$ 204,855	\$ 203,631

See the accompanying Independent Auditors' Report.

FALCON SHOOOL DISTRICT 49
 COMPONENT UNITS
 COMBINING STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2008

	Pikes Peak School of Expeditionary Learning	Banning Lewis Ranch Academy	Rocky Mountain Classical Academy	Total
EXPENSES				
Instruction	\$ 779,893	\$ 1,938,425	\$ 1,899,281	\$ 4,617,599
Supporting Services	404,223	1,811,404	1,178,983	3,394,610
Interest and Fiscal Charges	-	491,076	301,021	792,097
TOTAL EXPENSES	1,184,116	4,240,905	3,379,285	8,804,306
PROGRAM REVENUES				
Charges for Services	49,387	95,117	90,353	234,857
Operating Grants and Contributions	3,383	96,520	559,265	659,168
Capital Grants and Contributions	-	-	54,991	54,991
TOTAL PROGRAM REVENUES	52,770	191,637	704,609	949,016
NET EXPENSE (REVENUE)	(1,131,346)	(4,049,268)	(2,674,676)	(7,855,290)
GENERAL REVENUES				
Per Pupil Operating Revenue	1,117,610	3,531,949	2,969,673	7,619,232
Capital Construction Funding	20,607	65,122	-	85,729
Grants and Contributions not Restricted to Specific Programs	-	208,947	-	208,947
Investment Earnings	12,960	51,645	736	65,341
Miscellaneous	-	8,153	-	8,153
TOTAL GENERAL REVENUES	1,151,177	3,865,816	2,970,409	7,987,402
CHANGE IN NET ASSETS	19,831	(183,452)	295,733	132,112
NET ASSETS, Beginning, As Restated	342,452	(180,055)	(90,878)	71,519
NET ASSETS, Ending	\$ 362,283	\$ (363,507)	\$ 204,855	\$ 203,631

See the accompanying Independent Auditors' Report.

COMPLIANCE SECTION

SINGLE AUDIT



Board of Education
Falcon School District 49
Falcon, Colorado

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the Falcon School District 49, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Falcon School District 49, and have issued our report thereon dated March 13, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Falcon School District 49's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Falcon School District 49's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Falcon School District 49's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Falcon School District 49's financial statements that is more than inconsequential will not be prevented or detected by the Falcon School District 49's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2008-1, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Falcon School District 49's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2008-1 to be a material weakness.

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*.

We noted certain matters that we reported to the Board of Education and management of the Falcon School District 49 in a separate letter dated March 13, 2009.

The Falcon School District 49's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Falcon School District 49's response and, accordingly, we express no opinion on it.

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

Ernst & Young LLP

March 13, 2009



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, 2008. 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 of 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, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Falcon School District 49's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Falcon School District 49's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the Falcon School District 49's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Falcon School District 49's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Falcon School District 49's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Falcon School District 49's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Falcon School District 49's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Falcon School District 49's response and, accordingly, we express no opinion on it.

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

Swanbury Company LLC

March 13, 2009

FALCON SCHOOL DISTRICT 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? ☒ yes ☐ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

☒ yes ☐ no

Identification of major programs:

84.041 Impact Aid
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 ☐ no

(Continued)

FALCON SCHOOL DISTRICT 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Financial Statement Findings

2008-1 Financial Reporting

Criteria	The District is responsible to implement internal controls designed to ensure that financial information is accurate and timely.
Condition	The District was unable to produce financial information accurately and in a timely manner during the audit process.
Context	The audit process spanned several months because certain financial information was not complete or available. We proposed several adjustments to the financial records to properly report financial statements in accordance with generally accepted accounting principles. These adjustments included a restatement of prior period financial statements of approximately \$3.2 million to report land donated by developers.
Effect	The District did not issue the annual audited financial statements by the deadline imposed by the State of Colorado.
Cause	The District has experienced continuous turnover in its Finance Department. The Finance Department staff as a whole do not possess the appropriate experience or expertise to maintain the accounting records in a manner to allow the preparation of financial statements completely and on a timely basis.
Recommendation	We recommend that the District seek out the necessary personnel and implement the necessary processes, procedures, and internal controls to ensure that financial information is complete, accurate, and available in a timely manner.

Views of Responsible Officials and Planned Corrective Actions

We agree to the importance of being able to produce financial information accurately and timely. While the unseemly environment present in the district administration office in the summer and fall of 2008 should not be used as an excuse for the department's inability to independently produce financial information accurately and timely; it was, nevertheless, a significant issue that affected the efficiency and effectiveness of the Finance Department during that time. In addition, the department was significantly understaffed during the fall of 2008 which also severely limited the overall efficiency and effectiveness of the department.

The prior period restatement mentioned in the 'Context' section is true and valid, as is the fact that this error has existed for several years, surviving both annual accounting and annual audit processes before it was discovered in the accounting work in support of this year's audit. The point remains, however, that the fixed asset accounting process needed improvement and we have committed to that for the current (2008-2009) fiscal year.

Other changes that will address this finding focus on staffing. During late 2008 and early 2009, two new accounting professionals were added to the staff into positions that became vacant in the fall of 2008. Both individuals are degreed accountants, one being a CPA, and bring significant experience and expertise to the department, especially in the area of financial statement reporting. These additions will ensure that the Finance Department will be able to accurately produce consolidated financial statements in a timely manner for use by administrative staff, members of The Board, and members of the constituency who have a desire to increase their understanding of the district's financial position. These statements will also serve as the main reference for audit and CDE reporting purposes.

(Continued)

FALCON SCHOOL DISTRICT 49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Federal Awards Findings and Questioned Costs

2008-2 Grants Internal Controls

U.S. Department of Education
Passed through Colorado Department of Education
84.010 Title I
84.027 Special Education
84.367 Improving Teacher Quality

Criteria	The District is required to have adequate internal controls in place to report federal awards accurately and in a timely manner to ensure compliance with applicable federal laws and regulations.
Condition	The District has not implemented the appropriate procedures and internal controls to maintain grant accounting records. Reimbursement requests for certain grants were not submitted in a timely manner.
Context	As a result of our audit testwork, we continue to find errors in the accounting records related to grants received by the District. Management routinely adjusts the accounting records at the end of the fiscal year to correct these errors. At June 30, 2008, the District had grant receivables of approximately \$1.7 million, a significant increase from previous years.
Effect	Grant reimbursement requests were not submitted in a timely manner, requiring the General Fund to subsidize the grant programs for an extended period of time. Financial reporting was delayed to allow for adjustments to the grant accounting records.
Cause	The District has historically maintained decentralized grant accounting records. Personnel often do not have the appropriate accounting knowledge to properly maintain the records. Personnel turnover and this lack of knowledge allowed the existing situation to occur, whereby reimbursement requests were not submitted in a timely manner.
Recommendation	The District should implement ongoing and consistent procedures to better monitor and report grants in the accounting records. The District should consider centralizing the accounting for grants in the Finance Department, or provide the necessary training and oversight for grant accounting personnel.

Views of Responsible Officials and Planned Corrective Actions

We agree to the overall importance of this comment and the conditions that led to an increase in the receivables balance. As noted in the 'Cause' section of the comment, the historical environment, which was decentralized in nature, was a significant contributing factor in the situation. The Finance Department will take steps to centralize the accounting portions of the grant accounting process and will take a more active advisory role with the Grant Administration team to help ensure the District not only makes a timely and accurate accounting of grant funds, but also maximizes the benefits intended for the district from each individual grant.

As with comment 1, new staff hires in the Finance Department will facilitate the change we are looking for; and work has already begun to incorporate new procedures in the overall grants management process.



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 governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the Falcon School District 49, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Falcon School District 49, and have issued our report thereon dated March 13, 2009. 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

March 13, 2009

FALCON SCHOOL DISTRICT 49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education		
Direct Programs		
Impact Aid	84.041	\$ 401,379
Safe and Drug-Free Schools and Communities - National Program	84.184	<u>97,847</u>
Passed Through Colorado Department of Education		
Title I	84.010	356,369
Special Education	84.027	1,499,975
Special Education - Preschool	84.173	44,135
Safe and Drug-Free Schools and Communities - State Program	84.186	3,902
Education Technology	84.318	2,852
Improving Teacher Quality	84.367	115,730
Innovative Programs	84.298	12,331
Passed Through Colorado Community College System		
Vocational Education	84.048	16,003
Tech-Prep Education	84.243	5,703
Passed Through Colorado Department of Human Services		
Vocational Rehabilitation	84.126	74,426
Passed Through Lewis Palmer School District		
English Language Acquisition	84.365	<u>24,190</u>
Total U.S. Department of Education		<u>2,654,842</u>
U.S. Department of Agriculture		
Passed Through Colorado Department of Human Services		
Food Donation	10.550	166,025
Passed Through Colorado Department of Education		
School Breakfast Program	10.553	21,112
National School Lunch Program	10.555	<u>606,709</u>
Total U.S. Department of Agriculture		<u>793,846</u>
Total Federal Awards		<u><u>\$ 3,448,688</u></u>

See the accompanying Independent Auditors' Report.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FALCON SCHOOL DISTRICT 49
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2008

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 DONATION**

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

STATE COMPLIANCE

Auditor's Integrity Report.



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 governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the Falcon School District 49, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Falcon School District 49, and have issued our report thereon dated March 13, 2009. 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.

A handwritten signature in cursive script that reads 'Swanhorst & Company LLC'.

March 13, 2009

03/20/2009
08:33 AM

Colorado Department of Education
Fiscal Year 2007-2008
Colorado School District/BOCES
Auditor's Integrity Report

EL PASO FALCON 49
District Code: 1110

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*) +	1000 - 5999 Total Revenues & Other Sources -	0001 - 0999 Total Expenditures & Other Uses =	6700 - 6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental				
10 General Fund	24,404,861	78,934,448	80,346,962	22,992,347
18 Risk Mgmt Sub-Fund of General Fund	54,758	691,098	656,616	89,240
19 Colorado Preschool Program Fund	69,387	290,368	224,393	135,361
Subtotal	24,529,006	79,915,913	81,227,971	23,216,948
11 Charter School Fund	418,294	7,587,277	7,727,763	277,808
20,26-29 Special Revenue Fund	0	208,604	208,604	0
21 Capital Reserve Spec Revenue Fund	142,617	3,008,882	2,790,731	360,768
22 Govt Designated-Purpose Grants Fund	-0	2,952,866	2,952,866	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
30 Debt Service Fund	0	0	0	0
31 Bond Redemption Fund	6,778,931	7,459,289	6,110,635	8,127,585
41 Building Fund	2,557,564	43,790,071	37,612,994	8,734,641
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	536,348	169,984	205,968	560,364
TOTALS	35,022,760	145,092,886	138,837,532	41,278,114
Proprietary				
51 Food Service Fund	1,390,351	2,771,784	2,778,051	1,384,084
50 Other Enterprise Funds	-546,800	533,042	720,340	-734,099
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
TOTALS	843,550	3,304,826	3,498,391	649,986
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	2,115	10,506	0	12,621
74 Pupil Activity Agency Fund	950,221	3,204,782	3,285,123	869,881
79 GASB 34:Permanent Fund	0	0	0	0
Foundations	0	0	0	0
85 TOTALS	952,337	3,215,288	3,285,123	882,501

*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: fdl110.62c

Program: fdrdh.sqr

File: fdl110.dhc

FINAL