



Business Services Division

November 8, 2011

Members of the Board of Education
Dr. Bruce K. Messinger, Superintendent of Schools
Boulder Valley School District RE-2
Boulder, Colorado

It is our pleasure to submit the Comprehensive Annual Financial Report of the Boulder Valley School District RE-2 for the fiscal year ended June 30, 2011.

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is being formally submitted to the board of education in fulfillment of those requirements.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

The 2011 Comprehensive Annual Financial Report (CAFR) presentation is in compliance with the governmental financial reporting model established by the Governmental Accounting Standards Board (GASB) Statement No. 34 titled *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Accounting and financial reporting for state and local governments previously focused on funds to demonstrate fiscal accountability. The GASB No. 34 reporting model parallels private sector reporting by consolidating fund-based presentations into government-wide financial statements designed to ensure and demonstrate fiscal and operational accountability.

Swanhorst & Company LLC, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the Boulder Valley School District RE-2’s financial statements for the year ended June 30, 2011. The independent auditors’ report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

Boulder Valley School District RE-2 is a public school district, organized and existing under the School District Organization Act of 1965, Article 30, Title 22, and Colorado Revised Statutes. It

was originally organized in 1860 and was reorganized in 1961 to include numerous smaller districts. A seven member board of education elected by the citizens of Boulder, Broomfield and Gilpin Counties governs the district. Board members serve four-year terms, with four members elected every two years. Board members are term-limited at two terms.

The district is located near the foothills of the Rocky Mountains approximately twenty miles northwest of Denver. The district is made up of approximately 500 square miles in the southern half of Boulder County, the northern part of Gilpin County and a significant portion of western Broomfield County. It covers one of the larger school regions in the metro-Denver area and encompasses the communities of Boulder, Broomfield, Erie, Gold Hill, Jamestown, Lafayette, Louisville, Nederland, Superior, and Ward. For the 2010-11 school year, the district's total enrollment and student funded full time equivalent was 29,320 and 28,148.8, respectively, including charter schools. The district owns over 750 acres of prime Boulder and Broomfield County property and maintains six artificial turf athletics fields and 56 buildings spanning over four million square feet.

The district provides a full and challenging range of educational programs and services authorized by Colorado State Statute including basic kindergarten through grade twelve education in elementary, middle and high schools, special education for special needs students, vocational education, English as a second language education and numerous other educational and support programs. In addition, the district offers preschool programs through the Colorado Preschool Program, Community Montessori focus school and the Special Education program.

Five charter schools are included as component units of the Boulder Valley School District RE-2 for the 2011 CAFR: Boulder Preparatory High School, Horizons K-8 Alternative School, Peak to Peak K-12 Charter School, Summit Middle Charter School and Justice High Charter School.

Economic Conditions and Outlook

The state economic picture is important to the district because a major source of funding for the district's General Operating Fund is received through the State's School Finance Act established by the state legislature. Also, a strong local economy combined with a stable or growing population are factors critical to the health of a school district.

The City of Boulder is home to the University of Colorado, Boulder Campus, which is a significant stabilizing force for the local economy. The City of Boulder is also home to a campus of the National Institute of Standards and Technology, the National Center for Atmospheric Research, and the University Corporation for Atmospheric Research and other federal research laboratories.

Other major employers in the area include Ball Aerospace, IBM Corporation, Oracle, Level 3 Communications and numerous other smaller software, research, manufacturing and pharmaceutical firms.

In February 2008 ConocoPhillips purchased the 420 acre Storage Tek/Sun Microsystems campus in Louisville, Colorado. ConocoPhillips has deconstructed the 1.6 million square feet of existing buildings on the site and in 2013 intends to start constructing a corporate learning and global technology center. Upon its completion, the technology center is expected to support many new and alternative energy research and development opportunities; work closely with nearby universities, including the University of Colorado, Colorado State University, the

Colorado School of Mines, and the University of Denver; and take advantage of ongoing collaboration with the National Renewable Energy Laboratory (NREL).

The ConocoPhillips development will have a significant positive impact to the local economy. The *2011 Colorado Business Economic Outlook*, published by the University of Colorado Leeds School of Business states that;

“The effects of the national recession will be felt well beyond 2010. Colorado remains home to extraordinary thought leaders and entrepreneurs, high-tech companies and abundant natural resources, eager citizens and world-class recreation. While the committees expect only marginal employment improvement in 2011, the foundation is set and the conditions are primed for Colorado to accelerate employment growth for the next decade.”

“The Boulder County economy is showing signs of recovery from the recession and continues to outperform the state and national economy in many areas. The county has many assets that help position it for economic growth, including the main campus of the University of Colorado, several major federal research facilities, a high concentration of entrepreneurial activity and advanced technology companies, and a well-educated and highly skilled workforce.”

The Denver-Boulder-Greeley CPI (Consumer Price Index) is the measure of inflation that is generally used for the state of Colorado. The 2011 projected rate increase, used as a function of funding increases for the 2012-13 fiscal year, is 1.7 percent. This is the same as the U.S. projection. School districts face a significant challenge as an improvement in fiscal resources for K-12 education will typically lag an economic recovery. Conservative financial planning will support BVSD’s ability to react to revenue fluctuations in the 2011-12 fiscal year. Therefore, the outlook for K-12 funding in the 2012-13 fiscal year continues to be flat, even though the state and national economy have begun a slow recovery. The national political arena may impact K-12 funding as the pressure to cut the national deficit may result in reduced Federal funding for required programs such as special education and support for low income students.

Long-term Financial Planning

Each year the state budget is crafted by the governor and legislature to determine how much of the total budget will be allocated to education. The state economic picture is important to the district because a major source of funding for the district’s General Operating Fund is received through the state’s School Finance Act established by the state legislature. State revenue shortfalls necessitated cuts to K-12 education although expectations for funding increases as mandates under Amendment 23 exist. One-time cash funds continue to be accessed to balance the state budget. After the state sets the total funding for K-12 public education, each local district determines how to fund its specific system and every school within its district.

For the 2011-12 fiscal year, the legislature cut funding for K-12 public education by an additional \$229M, or 4.2 percent. This equates to a \$9.1M reduction to BVSD from 2010-11 actual funding levels. The total reduction to SFA funding is now \$774.4M, or 13 percent. A funding increase to reflect inflation as mandated in Amendment 23 of the Colorado Constitution was not required to be fulfilled due to a shortfall in statewide personal income growth. This is expected to be a permanent revenue reduction for the near future.

The BVSD projected state per pupil revenue (PPR) for 2011-12 is \$6,375 after accounting for a \$2 per pupil rescission to pay for finance staff at the Colorado Department of Education. Total program funding, defined by the SFA, is projected to be \$180M, a decline of \$5.6M from the

BVSD 2010-11 Revised Budget, or \$9.1M from projected actual 2010-11 collections. Included in this figure is the impact of the timing of tax collections over two fiscal years, a reduction of around \$900K in 2010-11 from the state-determined per pupil revenues.

The funded pupil count is the real driver of school funding. The SFA identifies a per pupil funding amount, and the number of full-time students enrolled in a district determines the amount of total funding the district receives. The funded pupil count refers to the number of full-time students enrolled in a district. Not all students (kindergartners for example) attend school on a full-time basis; the funded pupil count is different from the total enrollment. The official pupil count occurs each October and results in the funded pupil count numbers.

When projecting student enrollment, the budget implications are substantial if expected growth is not realized. If a shortfall in actual enrollment occurs as compared to projections, this information is generally received after the close of the first quarter of the fiscal year and many staffing and programmatic changes cannot be made without significant impacts to students. For this reason, the district generally undertakes a reasonable, yet conservative, projection methodology to reduce the risk of a funding shortfall compared to expected revenues.

Fund Balance Requirements

In order to meet the challenges of school funding in Colorado, the board of education adopted Policy DB in spring 2005, which dictated a minimum level of year-end fund balance in order to ensure the district's ongoing financial health. To further bolster the district's financial position and address the current economic challenges, the board of education updated this policy in January 2009, strengthening the requirements of the policy. The policy restricts the district from using one-time money for ongoing expenditures. This ensures programs are sustained with ongoing revenue. In addition, current policy specifies the amount to be held as a contingency reserve.

Following the requirements of this policy means the district will have to make annual budget adjustments so that new expenditures do not exceed new revenues and a moderate level of reserves is maintained. Because the district has in the past funded necessary programs with fixed revenue provided by override funds, the cost of these programs will eventually exceed the fixed revenue stream. Using the policy now means the district can make smaller adjustments over time rather than making dramatic cuts when the cost of programs has outgrown revenue sources.

The original policy was recommended by the district's external auditors and commended by the Colorado Department of Education's Accreditation Consultant. An update to the policy was crafted by the district's audit committee with input from the district's external financial advisors.

The two key elements of the policy are spending limitations and reserve requirements as follows:

Spending Limitations:

- The General Operating Fund budget will be developed so that the total of annual ongoing expenditures and transfers does not exceed annual revenues.
- If the General Operating Fund ends any fiscal year with an ending balance beyond required reserves, this amount can only be used for one-time uses in subsequent years.
- One-time uses are defined as expenditures, transfers and/or reserves committed by the district for a finite period of time, on a non-recurring basis.

Reserve Requirements:

- In addition, the General Operating Fund budget will be developed containing an ending fund balance equal to required reserves including the TABOR reserve plus a minimum of a 3 percent contingency reserve. The need for additional reserves shall be reviewed annually.
- Funds in the contingency reserve shall not be spent without board approval. The request for approval must include a plan for ensuring that the expenditure will not exceed the fixed dollar amount approved by the board, and must also include a plan for replenishing the reserve within two years from first dispersal.
- The budgets for all other funds will be developed to include, at a minimum, the required TABOR reserve.
- The General Operating Fund budget will be developed on a generally accepted accounting principles (GAAP) basis.

At June 30, 2011, the district is in compliance with these fund balance requirements.

Major Initiatives

In the fall of 2007, the Boulder Valley School District's Board of Education unanimously adopted three specific and measurable goals for district improvement over the five school years of 2007-2012 in the areas of achievement, equity, and climate (organizational). The purpose of these goals is to deliver to each of our over 29,000 students the BVSD promise of excellence and equity as they strive to become New Century Graduates. The goals can be located on the district website at <http://bvsd.org/goals/Pages/default.aspx> and are identified as:

Achievement Goal – Increase measurable student achievement in specific content areas through curriculum and instruction that is rigorous and relevant.

Equity Goal – Narrow the achievement gap in all content areas as measured by CSAP results, ACT scores, district graduation rates and curriculum-based assessments.

Climate (Organizational) Goal – Create and sustain a safe and positive learning environment that protects and respects the rights of all individuals as measured by specific results from the annual BVSD School Climate Survey.

The annual spending plan is a blueprint for the district to provide quality instruction and educational programs for all students, in order to achieve each goal identified. As part of the district's budget development process, the board strives to align human and financial resources with student needs in order to realize the greatest possible impact upon student achievement. Detailed revenue, expenditures, and staff allocation formulas that support educational programs and services needed to achieve district goals can be found in the Financial Section of this book. To meet these goals, the superintendent and board continue to focus resources on those students with the greatest needs. This is evidenced in the differentiated staffing detailed under "School Allocation Formulas" in the Financial Section of this book. Schools with high percentages of students on meal assistance have additional resources allocated to drive the closure of the achievement gap and support the learning environment.

Other Information

Change in Leadership

On February 2, 2011, Superintendent Dr. Christopher King announced his retirement. Dr. King worked for the district for 17 years, beginning his career as an English teacher at Broomfield High School. He also worked as the principal at Boulder High School and as both an assistant and a deputy superintendent before becoming superintendent on July 1, 2007.

On May 10, 2011, the board of education announced the appointment of Dr. Bruce K. Messinger as its new Superintendent of Schools, effective July 1, 2011. Dr Messinger comes to the district from Helena, MT where he spent the past 14 years as superintendent.

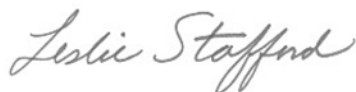
Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting and to the district for its comprehensive annual financial report for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement and the Certificate of Excellence, the district must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfied both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the program requirements for both Certificate of Achievement program. This document will be submitted to GFOA to determine eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis was made possible by the dedicated service of the entire staff of the Business Services Division. We would like to express our sincere appreciation to all members of the department for their contributions to this report. We also thank the district's independent auditors, Swanhorst & Company LLC, for the professional manner in which they accomplished the audit and for their work to publish this Comprehensive Annual Financial Report. We would also like to thank Dr. Bruce K. Messinger, Superintendent of Schools and the board of education for their interest in and support of the finance and accounting operations of the Boulder Valley School District RE-2 and Heather Grooters CPA, District Accountant, for her assistance in the preparation of this document.

Respectfully Submitted,



Leslie A. Stafford, CPA
Chief Financial Officer



Charles R. McElwain, CPA
Accounting Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Boulder Valley School
District RE-2, Colorado

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

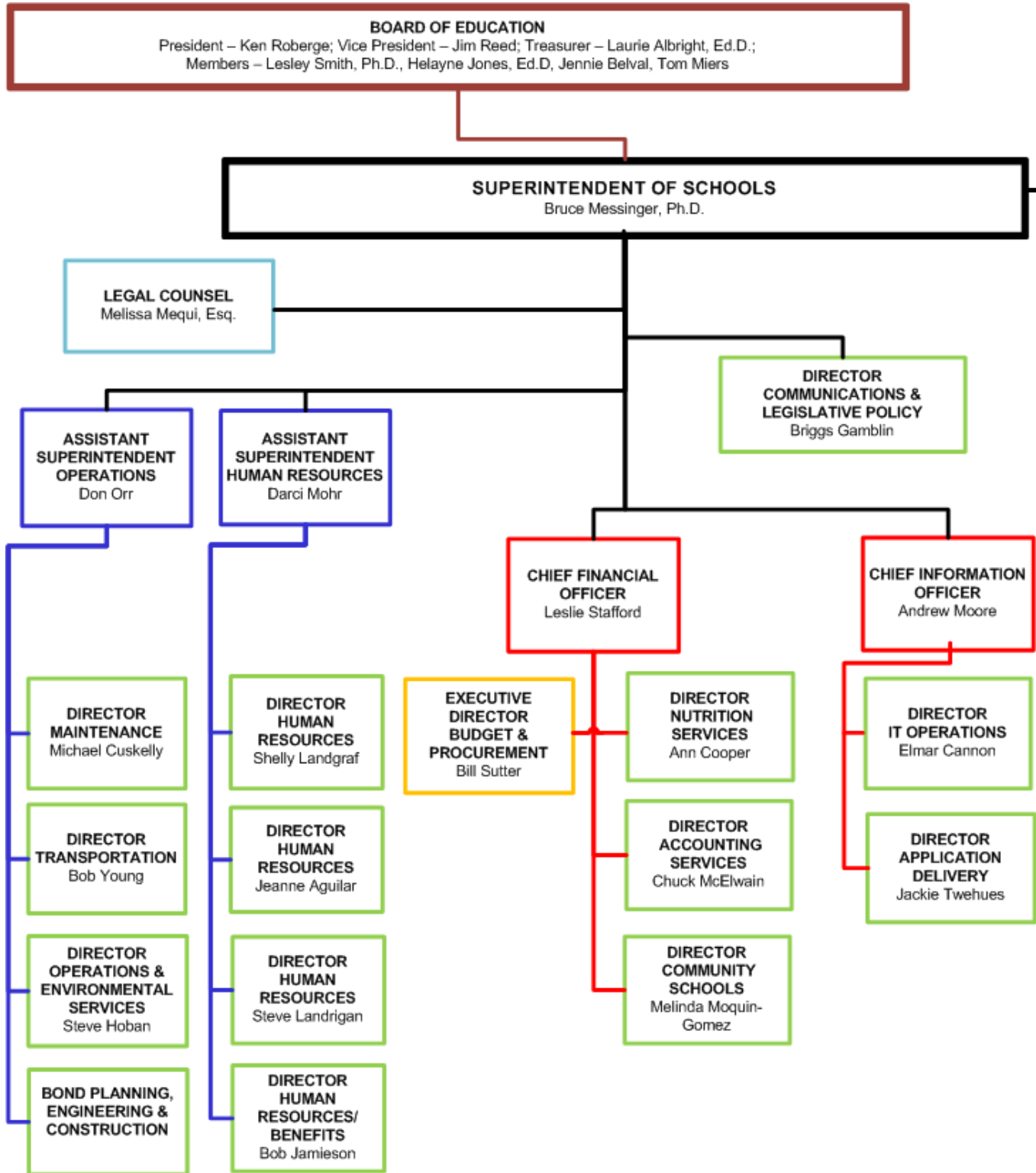
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

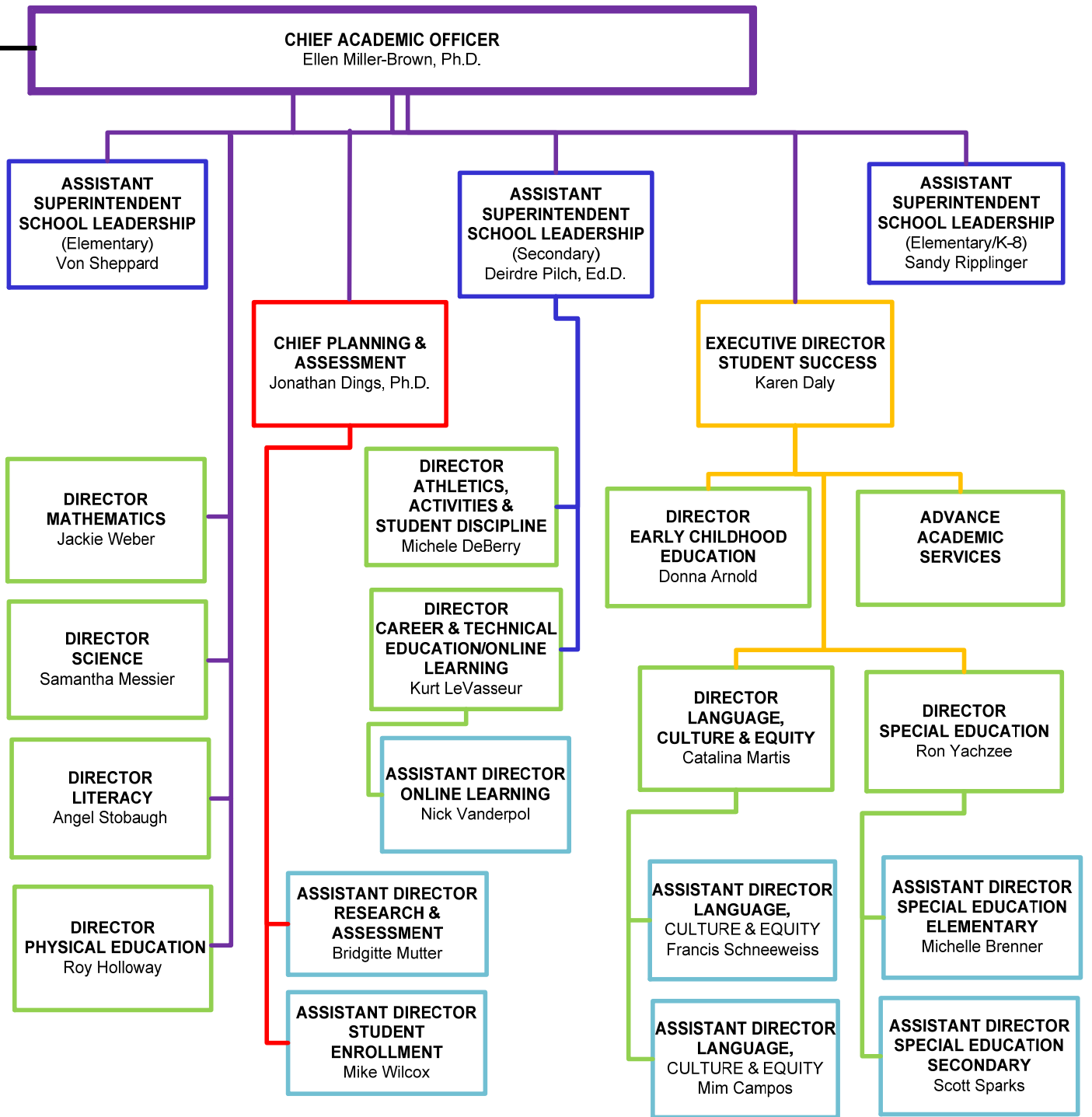


President

Executive Director

BOULDER VALLEY SCHOOL DISTRICT RE-2 ORGANIZATION CHART





BOULDER VALLEY SCHOOL DISTRICT RE-2

List of Elected and Appointed Officials

July 1, 2011

Board of Education

Top Row (left to right):

District B

Lesley Smith, Ph.D.

District F

Jennie Belval

District C

Laurie Albright, Ed.D.

Treasurer

District A

Helayne Jones, Ed.D.

Bottom Row (left to right):

District G

**Jim Reed,
Vice-President**

District D

**Ken Roberge,
President**

District E

Tom Miers



**Bruce Messinger, Ph.D.
Superintendent**

Superintendent's Cabinet

Ellen Miller-Brown, Ph.D.Chief Academic Officer
Darci Mohr..... Asst. Superintendent of Human Resources
Deirdre Pilch, Ed.D.,.....Asst. Superintendent for School Leadership-Secondary
Sandy Ripplinger, Asst. Superintendent for School Leadership-Elementary & K-8
Von Sheppard, Asst. Superintendent for School Leadership-Elementary
Don Orr..... Asst. Superintendent of Operations
Jonathan Dings, Ph.D. Chief of Planning and Assessment
Andrew Moore.....Chief Information Officer
Leslie A. Stafford.....Chief Financial Officer
Karen Daly Executive Director of Student Success
Melissa Mequi, Esq. Legal Counsel
Briggs Gamblin Director of Communications & Legislative Policy