

THE FALCON FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

WILLIAMS AND KOPENHAFER, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The Falcon Foundation
Colorado Springs, Colorado

We have audited the accompanying statements of financial position of The Falcon Foundation (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Falcon Foundation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Williams and Kopenhafers, P.C.

Colorado Springs, Colorado
October 15, 2009

THE FALCON FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	JUNE 30,	
	2009	2008
CASH AND MONEY MARKET FUNDS	\$ 44,043	\$ 78,162
INVESTMENTS - UNRESTRICTED ASSETS:		
Mutual funds	12,095,716	14,553,104
Common stocks	1,244,188	2,085,685
TOTAL INVESTMENTS AND CASH - UNRESTRICTED ASSETS	13,383,947	16,716,951
INVESTMENTS - RESTRICTED ASSETS:		
Investments - Truman Lecture Series	130,387	180,202
Investments - Gen. Evans Honors Program	122,485	169,281
Investments - Gen. Phillips Memorial	23,707	32,764
Investments - Ruth A. Eaker	48,731	67,348
Investments - Millard Honor Program	608,473	840,944
Investments - Wood Memorial	84,291	116,494
Investments - Gerhard Neumann Memorial	56,632	78,270
TOTAL INVESTMENTS - RESTRICTED ASSETS	1,074,706	1,485,303
DEFERRED COMPENSATION HELD IN ESCROW	169,536	311,512
Total restricted assets	1,244,242	1,796,815
OTHER ASSETS	10,045	13,230
PROPERTY AND EQUIPMENT	2,593	3,345
	12,638	16,575
TOTAL ASSETS	\$ 14,640,827	\$ 18,530,341

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 (Continued)

LIABILITIES AND NET ASSETS

	JUNE 30,	
	2009	2008
LIABILITIES -		
Liability under deferred compensation agreements	\$ 169,536	\$ 311,512
TOTAL LIABILITIES	169,536	311,512
NET ASSETS:		
Unrestricted	13,396,585	16,733,526
Temporarily Restricted:		
Truman Lecture Series	130,387	180,202
Gen. Evans Honors Program	122,485	169,281
Gen. Phillips Memorial	23,707	32,764
Ruth A. Eaker	48,731	67,348
Millard Honor Program	608,473	840,944
Wood Memorial	84,291	116,494
Gerhard Neumann Memorial	56,632	78,270
Total Temporarily Restricted	1,074,706	1,485,303
TOTAL NET ASSETS	14,471,291	18,218,829
TOTAL LIABILITIES AND NET ASSETS	\$ 14,640,827	\$ 18,530,341

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED JUNE 30,	
	2009	2008
CHANGES IN UNRESTRICTED ASSETS		
UNRESTRICTED SUPPORT -		
Contributions	\$ 131,652	\$ 88,878
OTHER UNRESTRICTED REVENUE:		
Trustee dues	45,600	48,900
Miscellaneous income	-	7,633
Dividends and interest	567,603	1,144,804
Investment gain(loss)	(3,335,334)	(1,812,413)
TOTAL OTHER UNRESTRICTED REVENUE	(2,722,131)	(611,076)
TOTAL SUPPORT AND REVENUE	(2,590,479)	(522,198)
EXPENSES:		
Program expenses:		
Contributions paid for scholarships	427,776	372,010
Reach for tomorrow education program	49,990	-
Airforce Academy educational programs	25,614	11,963
Wages and benefits	69,753	75,832
Annual meeting and board meetings	21,041	21,973
Travel	2,297	2,712
Other program expenses	10,693	8,924
Total program expenses	607,164	493,414
General and administrative expenses:		
Wages and benefits	88,488	96,201
Investment fees and bank charges	22,289	13,414
Professional fees	22,123	19,007
Office expense and miscellaneous	6,398	9,675
Total general and administrative expenses	139,298	138,297
TOTAL EXPENSES	746,462	631,711
Net assets released from restrictions	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(3,336,941)	(1,153,909)

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
STATEMENTS OF ACTIVITIES
(Continued)

	FOR THE YEARS ENDED JUNE 30,	
	2009	2008
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS - TEMPORARILY RESTRICTED NET ASSETS SUPPORT RECEIVED AND REVENUES COLLECTED:		
Investment income - Ruth A. Eaker	\$ (49,815)	\$ (5,851)
Investment income - Gen. Evans Program	(46,796)	(5,496)
Investment income - Gen. Phillips Acct.	(9,057)	(1,064)
Investment income - Truman Lecture Series	(18,617)	(2,246)
Investment income - Millard Honor Program	(232,471)	(27,304)
Investment income - Wood Memorial	(32,203)	(3,782)
Investment income - Gerhard Neumann Memorial	(21,638)	(2,542)
TOTAL SUPPORT AND REVENUES - TEMPORARILY RESTRICTED NET ASSETS	(410,597)	(48,285)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(410,597)	(48,285)
INCREASE (DECREASE) IN NET ASSETS	(3,747,538)	(1,202,194)
NET ASSETS - BEGINNING OF YEAR	18,218,829	19,421,022
NET ASSETS - END OF YEAR	\$ 14,471,291	\$ 18,218,829

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
STATEMENTS OF CASH FLOWS

	<u>FOR THE YEARS ENDED JUNE 30,</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash contributions received from unrestricted activities	\$ 131,652	\$ 88,878
Cash contributions and income received from restricted activities	-	-
Other income	-	7,633
Cash paid to vendors, employees and scholarship recipients	(745,710)	(630,959)
Interest and dividends received from restricted assets	42,286	93,606
Dividends received from unrestricted assets	525,317	1,051,198
Trustee dues received	45,600	48,900
	<u>(855)</u>	<u>659,256</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of stocks and bonds	449,093	1,096,672
Investments in stock and bonds	(482,357)	(1,971,558)
	<u>(33,264)</u>	<u>(874,886)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(34,119)	(215,630)
CASH - BEGINNING OF YEAR	<u>78,162</u>	<u>293,792</u>
CASH - END OF YEAR	<u>\$ 44,043</u>	<u>\$ 78,162</u>

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
STATEMENTS OF CASH FLOWS (Continued)

RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:

	FOR THE YEARS ENDED JUNE 30,	
	2009	2008
INCREASE (DECREASE) IN NET ASSETS	\$ (3,747,538)	\$ (1,202,194)
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	752	752
Gain (loss) on investments	3,745,931	1,860,698
TOTAL ADJUSTMENTS	3,746,683	1,861,450
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (855)	\$ 659,257

The accompanying notes are an integral part of these financial statements.

THE FALCON FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation is a nonprofit organization which was organized to award educational scholarships to individuals meeting established criteria.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers only unrestricted cash on hand or on deposit with a banking facility in a demand deposit account to be a cash equivalent. Investments in short-term commercial paper and restricted asset accounts are not included as a cash equivalent in the statements of cash flows.

Investment Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets.

Tax Status of the Foundation

The Internal Revenue Service in 1958 approved the status of The Falcon Foundation as one which was tax exempt under Section 501(c)(3) of the Code and that contributions to the Foundation were tax deductible to its contributors. Upon application to the Internal Revenue Service in August, 2003, the Foundation, on September 16, 2003, received a current ruling from the Internal Revenue Service that it was "not a private foundation as defined in 509(a) of the Internal Revenue Code." Such ruling maintained the tax exempt status of the Foundation.

THE FALCON FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

For the year ended June 30, 1995, the Foundation elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," early. Under SFAS No. 117, the Foundation is required to report information regarding its assets, liabilities, revenues and expenses according to three classes of net assets. In addition, the Foundation is required to present a statement of cash flows. As permitted by this statement, the Foundation discontinued its use of fund accounting beginning July 1, 1994.

Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash

The carrying amount approximates fair value because of the short maturity of those instruments. Cash deposits were less than FDIC levels at June, 30, 2009.

Investments in Marketable Securities

The fair values of unrestricted and restricted assets which are invested in marketable securities are estimated based upon quoted market prices for those or similar investments. All such investments are considered short-term in nature as they are considered "available-for-sale".

NOTE 3 INVESTMENTS IN MARKETABLE SECURITIES

Unrestricted Assets

All marketable securities are carried at fair market value.

THE FALCON FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 INVESTMENTS IN MARKETABLE SECURITIES (Continued)

Unrestricted Assets (Continued)

Net gains (losses) of \$412,555 and \$(1,664,194) for the years ended June 30, 2009 and 2008, respectively, were realized from the sale of securities and included in the determination of net revenue.

Restricted Assets

For the years ended June 30, 2009 and 2008, investment income includes net realized gains (losses) of \$0 and \$(148,219), respectively.

NOTE 4 RESTRICTED ASSETS

The Foundation receives contributions and disburses funds, where appropriate, which are restricted for specific purposes. At June 30, 2009 and 2008, the types of such restricted contributions which have been invested include amounts for other scholarship funds and various lecture series. In addition, the Foundation holds in escrow certain funds representing compensation which are withheld from employee salaries.

NOTE 5 PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized below:

	June 30, 2009	June 30, 2008
	<u> </u>	<u> </u>
Furniture and equipment	\$ 35,631	\$ 35,631
Additions	-	-
Less: accumulated depreciation	<u>(33,038)</u>	<u>(32,286)</u>
	<u>\$ 2,593</u>	<u>\$ 3,345</u>

THE FALCON FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (Continued)

Useful lives of furniture and equipment were estimated to range from five to ten years. The office facilities used by the Foundation are provided to them without charge.

Depreciation expense for the years ended June 30, 2009 and 2008 was \$752.

NOTE 6 DEFERRED COMPENSATION AGREEMENTS

The deferred compensation agreements with certain current and former employees of the Foundation have provided funds that have been deposited into agency accounts. The agreements provide that the funds will be invested in short-term investments.

The change in the accounts are as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Balance at beginning of year	\$ 311,512	\$ 478,614
Deferred compensation payment	36,910	40,417
Net income and disbursements	<u>(178,886)</u>	<u>(207,519)</u>
Balance at end of year	<u>\$ 169,536</u>	<u>\$ 311,512</u>

NOTE 7 CONCENTRATIONS

The Foundation has 8.6% of its assets invested in a single publicly traded security as of June 30, 2009.

NOTE 8 CONTRIBUTIONS

The Association of Graduates (AOG) has agreed to assist the Foundation with its scholarship program. The AOG has committed to raising funds up to \$100 million, of which 5% will be used to fund the AOG's Falcon Foundation Endowment. Interest earned on the endowment funds are to be paid annually to the Foundation. The contribution received from the AOG during the fiscal year ended June 30, 2008, was \$20,000.

THE FALCON FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONTRIBUTIONS

The funds held by the AOG in a quasi endowment fund are as follows:

	Year Ended	
	June 30, 2009	June 30, 2008
Investments and pledges, beginning of year	\$ 759,547	\$ 862,565
Investment income	(144,824)	(40,010)
Donations	325	740
Total Income	<u>(144,499)</u>	<u>(39,270)</u>
Fundraising fee	-	37,500
Administrative fee	4,106	5,555
Mastercard fees	208	264
Payment to Falcon Foundation	20,000	13,100
Uncollected pledges	11,000	-
Provision for bad debts	6,485	7,328
Total expenses	<u>41,799</u>	<u>63,748</u>
Net income (loss)	<u>(186,298)</u>	<u>(103,018)</u>
Investments and pledges, end of year	<u>\$ 573,249</u>	<u>\$ 759,547</u>

A Memorandum of Understanding (MOU) and the Ackerman Trust Gift Agreement have been executed between the Falcon Foundation and the Air Force Academy Association of Graduates (AOG). The terms of this agreement and the MOU stipulate that the financial assets specified therein will be solely managed and totally controlled by the AOG with periodic payouts from the assets made to the Falcon Foundation as determined by the AOG's Investment Policy. As of July 30, 2008, the AOG declared a value of \$759,546.96 for the assets covered by these agreements. As of June 30, 2009, the AOG declared an asset value of \$573,249.41. This decrease in asset value consisted of a \$20,000 cash distribution to the Falcon Foundation which is reported in these financial statements; AOG management and administrative fees; and net realized and unrealized gains and losses on these assets. Included in these investment losses is a loss of market value of assets which the AOG invested in a Hudson Partners Fund. Hudson Partners was a feeder fund that was the object of fraud by Madoff Securities. The AOG reported this loss at \$36,449. In addition, the AOG has notified the Foundation that the potential additional loss of \$12,880 from this investment in Hudson Partners could be incurred depending upon the recovery actions taken by the U.S. district court-appointed Trustee overseeing the liquidation of the Madoff Securities firm and the disposition of its assets.

In response to the AOG notification to the Falcon Foundation of this loss and their exposure to the Madoff fraud, the Foundation formally requests that the title, control and management of these funds be transferred from the AOG to the Falcon Foundation. The AOG denied this request; it is the intent of the Foundation to re-address this request to the AOG in the near future.