

BEN FRANKLIN ACADEMY

FINANCIAL STATEMENTS

June 30, 2012

BEN FRANKLIN ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2012

BOARD OF DIRECTORS

Jason Sanders, President

Paige Brock, Vice President

Jason Sunahara, Treasurer

Staci Ferguson, Secretary

Becky Mullen

Matthew Matherly

Ward Cerny

ADMINISTRATION

Bob Barber, Principal

Brenda Sepan, Business Manager

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Board of Directors
Ben Franklin Academy
Highlands Ranch, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ben Franklin Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Ben Franklin Academy, as listed in the table of contents. These financial statements are the responsibility of the Ben Franklin Academy'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ben Franklin Academy as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Swanhorst & Company LLC

October 1, 2012

Management's Discussion And Analysis (MD&A)

Required Supplementary Information

June 30, 2012

Following is a financial summary for Ben Franklin Academy (BFA) for the fiscal year ending June 30, 2012. The intent of this review is to provide an overview of the school's financial performance. Complete Financial Statements, including the Notes to the Financial Statements, are also available for review.

FINANCIAL HIGHLIGHTS

The period from July 1, 2011 to June 30, 2012 was BFA's inaugural year with the school formally opening September 5, 2011. As of June 30, 2012, net assets are \$387,962. The primary source of revenue was through funding from the Colorado State School Finance Act. Tax revenue for the year was \$3,627,398. During this inaugural year, BFA was at full capacity in grades Kindergarten through 7th with approximately 420 qualified students on the waitlist.

OVERVIEW OF FINANCIAL STATEMENTS

This financial summary is intended to provide an introduction to Ben Franklin Academy's basic financial statements. The basic statements are comprised of three components: 1.) Government-wide financial statements, 2.) Fund financial statements, and 3.) Notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

For the purpose of standardization, Government-wide financial statements are provided to emulate private-sector business reporting. These statements include a statement of net assets comparing total BFA assets to their liabilities as well as an income statement.

FUND FINANCIAL STATEMENTS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Both the balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund and the governmental activities. The General Fund utilizes a modified accrual method for reporting both revenues and expenses and complies with the Colorado state statute relating to governmental fund accounting.

Every year BFA establishes an annual budget to track spending in the General fund. Budgetary comparisons are provided to demonstrate compliance with the budget.

NOTES TO FINANCIAL STATEMENTS

Notes to the financial statements are provided for full understanding of financial data.

Management's Discussion And Analysis (MD&A)

Required Supplementary Information

June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

For the year ending June 30, 2012, governmental activity net assets totaled \$387,962. The school retained \$247,582 of unrestricted funds to meet the ongoing financial obligations and \$133,000 to comply with Article X, Section 20 of the Colorado Constitution, also known as the TABOR Amendment.

Table I: Net Assets

	2011-2012 Governmental Activities	2010-2011 Governmental Activities
ASSETS		
Capital Assets, Net	7,380	n/a
Other Assets	752,211	n/a
Total Assets	759,591	n/a
LIABILITIES		
Long Term Liabilities	4,485	n/a
Other Liabilities	367,144	n/a
Total Liabilities	371,629	n/a
NET ASSETS		
Invested in Capital Assets	7,380	n/a
Restricted for Emergencies	133,000	n/a
Unrestricted	247,582	n/a
Total Net Assets	387,962	n/a

Management's Discussion And Analysis (MD&A)

Required Supplementary Information
June 30, 2012

Table II: Change In Net Assets

	2011-2012 Governmental Activities	2010-2011 Governmental Activities
REVENUES		
<i>General Revenues</i>		
Per Pupil Revenue	3,627,398	n/a
Mill Levy	239,238	n/a
Capital Construction Funding	46,501	
Grants	208,300	n/a
Investment Earnings	42	n/a
Other	13,020	n/a
<i>Program Revenues</i>		
Charges for Services: Instruction	504,728	n/a
Charges for Services: Support	77,518	n/a
Capital Grants & Contributions	9,000	n/a
Total Revenue	4,725,745	n/a
EXPENSES		
Instruction	2,854,224	n/a
Support	1,503,100	n/a
Total Expenses	4,357,324	n/a
Change in Net Assets	368,421	n/a
Net Assets, Beginning	19,541	n/a
Net Assets, Ending	387,962	n/a

FUND FINANCIAL ANALYSIS

General Fund

Income

Gross Income for the period ending June 30, 2012 was \$4,716,745. The main source of income during this time period was from the state of Colorado through the charter authorized by Douglas County School District. Per Pupil Revenue was \$3,627,398 or \$6,157.60 per funded student. In addition, BFA received funding through the Douglas County School District as a component of local revenue in the amount of \$239,238. Full Day Kindergarten Tuition, Preschool Revenue and Before and After School Enrichment and Facilities Rental income were received in support of the operations of the school.

Expenditures

Total expenditures for the period of July 1, 2011 to June 30, 2012 were \$4,350,919. Salaries \$1,797,315; Benefits \$347,713; Purchased Property Services \$1,450,888; Supplies \$400,057 and Property \$345,034 comprised the largest portion of BFA expenditures during the year.

Management's Discussion And Analysis (MD&A)

Required Supplementary Information

June 30, 2012

Net Income

As of June 30, 2012, Net Income was reported to be \$365,826. The excess in Net Income was necessary to establish credit for the acquisition of our building. In the next 5 – 10 years BFA has committed to saving 5% of their revenue for the purpose of purchasing the land and building currently being leased through Highmark.

ANALYSIS OF SIGNIFICANT BUDGET VARIATIONS: GENERAL FUND

The original budget was adopted during the Spring of 2011 for the 2011-2012 school year. At the time the budget had been adopted, actual student count and per pupil distribution rates had not yet been finalized. Revenues exceeded planned estimates due to the changes reported in these two variables. In addition, Preschool revenues were much higher than original estimates due to an increase in enrollment. The school also opened a Before and After School Enrichment program under their own operations which was different than their original plan to have the program outsourced.

Several factors that contributed to the expenses in excess of the budget were updates and modifications to payroll as personnel decisions were finalized, financial support to the Ben Franklin Academy Foundation's Seed Of Knowledge fund raiser for an on-site greenhouse, acquisition of new library books and a remodel of the outside play area.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Ben Franklin Academy currently has one asset, an automatic floor cleaner, reported at \$7,380 after accumulated depreciation for the period ending June 30, 2012.

The school entered into a lease agreement with Highmark School Development, LLC in September 2011. Highmark leases the building and land to Ben Franklin Academy for a monthly charge. The term of the lease spans over a 20 year time period; details of which are presented in Note section 7 of this document.

Additional information on capital assets and long-term debt is provided in Note 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the budget for the school is the future of the Colorado state budget and related Funded Pupil Count. These drivers are regularly monitored and discussed amongst the Board and Management and associated budgetary impact. Student growth and facility financing were all considered during the strategic planning process.

Management's Discussion And Analysis (MD&A)

Required Supplementary Information

June 30, 2012

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Ben Franklin Academy's financial position. Questions concerning the information contained in this report should be directed to:

Ben Franklin Academy
2270 Plaza Drive
Highlands Ranch, CO 80129

BASIC FINANCIAL STATEMENTS

BEN FRANKLIN ACADEMY

STATEMENT OF NET ASSETS

June 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 748,468
Accounts Receivable	3,743
Capital Assets, Net of Accumulated Depreciation	<u>7,380</u>
TOTAL ASSETS	<u>759,591</u>
LIABILITIES	
Accounts Payable	14,835
Accrued Liabilities	49,579
Accrued Salaries and Benefits	295,405
Deferred Revenues	7,028
Noncurrent Liabilities	
Due Within One Year	300
Due in More Than One Year	<u>4,485</u>
TOTAL LIABILITIES	<u>371,629</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	7,380
Restricted for Emergencies	133,000
Unrestricted	<u>247,582</u>
TOTAL NET ASSETS	<u>\$ 387,962</u>

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

BEN FRANKLIN ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS</u>
		<u>CHARGES FOR SERVICES</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 2,854,224	\$ 504,728	\$ -	\$ (2,349,496)
Supporting Services	<u>1,503,100</u>	<u>77,518</u>	<u>9,000</u>	<u>(1,416,582)</u>
Total Governmental Activities	<u>\$ 4,357,324</u>	<u>\$ 582,246</u>	<u>\$ 9,000</u>	<u>(3,766,078)</u>
GENERAL REVENUES				
Per Pupil Revenue				3,627,398
District Mill Levy				239,238
Capital Construction				46,501
Grants and Contributions not Restricted to Specific Programs				208,300
Investment Income				42
Other				<u>13,020</u>
TOTAL GENERAL REVENUES				<u>4,134,499</u>
CHANGE IN NET ASSETS				368,421
NET ASSETS, Beginning				<u>19,541</u>
NET ASSETS, Ending				<u>\$ 387,962</u>

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

BEN FRANKLIN ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2012

	<u>GENERAL</u>
ASSETS	
Cash	\$ 748,468
Accounts Receivable	<u>3,743</u>
TOTAL ASSETS	<u>\$ 752,211</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 14,835
Accrued Liabilities	49,579
Accrued Salaries and Benefits	295,405
Deferred Revenues	<u>7,025</u>
TOTAL LIABILITIES	<u>366,844</u>
FUND BALANCE	
Restricted for Emergencies	133,000
Unrestricted, Unassigned	<u>252,367</u>
TOTAL FUND BALANCE	<u>385,367</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 752,211</u>

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance of the Governmental Fund	\$ 385,367
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	7,380
Long-term liabilities, including compensated absences, are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(4,785)</u>
Total Net Assets of Governmental Activities	<u>\$ 387,962</u>

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

BEN FRANKLIN ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2012

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 4,475,244
State Sources	46,501
Federal Sources	195,000
 TOTAL REVENUES	 4,716,745
EXPENDITURES	
Instruction	2,849,984
Supporting Services	1,500,935
 TOTAL EXPENDITURES	 4,350,919
 NET CHANGE IN FUND BALANCE	 365,826
FUND BALANCE, Beginning	19,541
FUND BALANCE, Ending	\$ 385,367

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balance of the Governmental Fund	\$ 365,826
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which contributed assets \$9,000 exceeded depreciation expense (\$1,620) in the current year.	7,380
Some expenses reported in the statement of activities do not require the use of the current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in accrued compensated absences.	(4,785)
Change in Net Assets of Governmental Activities	\$ 368,421

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

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ben Franklin Academy (the “Academy”) was established on July 26, 2010, pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”). The Academy began operations in the Fall of 2011.

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the Academy, organizations for which the Academy is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the Academy. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. Legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens, on the Academy. Based on the application of this criteria, the Academy does not include additional organizations within its reporting entity.

The Academy is a component unit of the District. The District granted the Academy’s charter and the majority of the Academy’s funding is provided by the District.

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 activities of the Academy. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues 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.

Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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. Revenues are considered to be *available* when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the Academy. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

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

The Academy reports the following major fund:

General Fund - This fund is the general operating fund of the Academy. It is currently used to account for all financial activities of the Academy.

Assets, Liabilities and Net Assets/Fund Balance

Cash and Investments - Investments are reported at fair value.

Accounts Receivable - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets - Capital assets, which currently consist of equipment, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net assets in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 years
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Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported in the financial statements as a liability of the General Fund.

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets/Fund Balance (Continued)

Deferred Revenues - Deferred revenues consist of resources received by the Academy before it has a legal claim to them, such as tuition.

Compensated Absences - Employees of the Academy are allowed to accumulate unused personal time off. Upon termination of employment from the Academy, an employee will be compensated for all accrued personal time off at the rate of \$40 per day. A long-term liability has been reported in the government-wide financial statements for these accrued compensated absences.

Net Assets/Fund Balance - In the government-wide and fund financial statements, net assets and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Academy has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both restricted and unrestricted fund balances are available, the Academy uses restricted fund balance first.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to contracted employees; and natural disasters. The Academy carries commercial insurance for these risks of loss.

NOTE 2: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Investments

The Academy 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
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

The Academy had no investments at June 30, 2012.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, is summarized below.

	Balances 6/30/11	Additions	Deletions	Balances 6/30/12
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ -	\$ 9,000	\$ -	\$ 9,000
Accumulated Depreciation	-	(1,620)	-	(1,620)
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 7,380</u>	<u>\$ -</u>	<u>\$ 7,380</u>

Depreciation expense was charged to the supporting services program of the Academy.

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2012.

	Balances 6/30/11	Additions	Payments	Balances 6/30/12	Due Within One Year
Compensated Absences	<u>\$ -</u>	<u>\$ 4,785</u>	<u>\$ -</u>	<u>\$ 4,785</u>	<u>\$ 300</u>

Compensated absences will be paid with resources of the General Fund.

NOTE 5: DEFINED BENEFIT PENSION PLAN

Plan Description - The Academy 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 or their beneficiaries. All employees of the Academy 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, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy - The contribution requirements of members and the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered salaries. The Academy's contribution rate for calendar years 2011 and 2012 was 14.75% and 15.65% of covered salaries, respectively. A portion of the Academy's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). The Academy's contributions to the SDTF for the year ended June 30, 2012, were \$240,495, equal to the required contributions.

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The Academy contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA participating benefit 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 contacting PERA as described previously.

Funding Policy - The Academy is required to contribute at a rate of 1.02% of covered salaries for all PERA members as set by State statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, 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 CRS, as amended. The Academy's apportionment to the HCTF for the year ended June 30, 2012, was \$16,091, equal to the required amounts.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The Academy 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 Academy may be required to reimburse the grantor government. At June 30, 2012, significant amounts of grant expenditures have not been audited but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the Academy believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the Academy has established a reserve for emergencies representing 3% of qualifying expenditures. At June 30, 2012, the reserve, of \$133,000, was reported as restricted fund balance in the General Fund.

BEN FRANKLIN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Operating Lease

Effective March 22, 2011, the Academy entered into a sublease agreement with a division of HighMark School Development, LLC, the developer of the educational facilities used by the Academy. The agreement requires monthly payments totaling \$799,786 each year, with an initial term of 240 months, beginning September 1, 2011. Beginning September 1, 2014, and each year thereafter, the lease payments will increase by 3%. In addition, the Academy approved an agreement to lease the related land and improvements for an initial monthly amount of \$9,000, increasing to \$19,008 per month in the eighth year. These lease payments increase each year thereafter at the rate of 1% to 3%, depending on the consumer price index.

In May 2012, an amendment to the sublease agreement allowed the Academy to expand the facilities. When the expansion is complete, the Academy's annual lease payments will be increased by the cost of the expansion multiplied by 10%. The estimated expansion cost is \$2,971,740.

The agreements include a purchase option on July 1 after the fifth, seventh, and tenth anniversaries of the payment commencement date of September 1, 2011. The purchase prices on these anniversary dates, excluding any amounts for the expansion, are estimated at \$9,813,487, \$9,566,982 and \$9,434,188, respectively.

Future minimum lease payments for the initial term of the sublease, excluding the amounts for the expansion, and assuming no purchase options are accepted, are as follows.

<u>Year Ended August 31,</u>	<u>Facility Lease</u>	<u>Ground Lease</u>	<u>Total</u>
2012	\$ 133,298	\$ 19,845	\$ 153,143
2013	799,786	133,403	933,189
2014	799,786	163,170	962,956
2015	823,780	192,938	1,016,718
2016	848,493	208,373	1,056,866
2017	873,948	222,705	1,096,653
2018 - 2022	4,779,107	1,293,391	6,072,498
2023 - 2027	5,540,294	1,508,644	7,048,938
2028 - 2031	<u>5,061,137</u>	<u>1,378,167</u>	<u>6,439,304</u>
Total	<u>\$ 19,659,629</u>	<u>\$ 5,120,636</u>	<u>\$ 24,780,265</u>

REQUIRED SUPPLEMENTARY INFORMATION

BEN FRANKLIN ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2012

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Local Sources			
Per Pupil Revenue	\$ 3,596,731	\$ 3,627,398	\$ 30,667
District Mill Levy	247,638	239,238	(8,400)
Tuition and Fees	502,960	573,061	70,101
Facility Rental	5,000	9,185	4,185
Contributions	-	13,300	13,300
Investment Income	-	42	42
Other	2,000	13,020	11,020
Total Local Sources	<u>4,354,329</u>	<u>4,475,244</u>	<u>120,915</u>
State Sources			
Capital Construction	<u>48,636</u>	<u>46,501</u>	<u>(2,135)</u>
Federal Sources			
Charter School Grant	195,000	195,000	-
Other Grants	<u>4,501</u>	<u>-</u>	<u>(4,501)</u>
Total Federal Sources	<u>199,501</u>	<u>195,000</u>	<u>(4,501)</u>
TOTAL REVENUES	<u>4,602,466</u>	<u>4,716,745</u>	<u>114,279</u>
EXPENDITURES			
Salaries	1,453,693	1,797,315	(343,622)
Employee Benefits	303,658	347,713	(44,055)
Purchased Services	1,457,023	1,450,888	6,135
Supplies and Materials	387,772	400,057	(12,285)
Property	417,589	345,034	72,555
Other	<u>1,600</u>	<u>9,912</u>	<u>(8,312)</u>
TOTAL EXPENDITURES	<u>4,021,335</u>	<u>4,350,919</u>	<u>(329,584)</u>
NET CHANGE IN FUND BALANCE	581,131	365,826	(215,305)
FUND BALANCE, Beginning	<u>(29,416)</u>	<u>19,541</u>	<u>48,957</u>
FUND BALANCE, Ending	<u>\$ 551,715</u>	<u>\$ 385,367</u>	<u>\$ (166,348)</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Academy adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- Budgets are required by State statute for all funds and are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- By April 1, management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30, the budget is adopted by the Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- All budget appropriations lapse at year end.

Legal Compliance

For the year ended June 30, 2012, the General Fund expenditures exceeded the amounts budgeted by \$329,584. This may be a violation of State statutes.