

BASIS CHARTER SCHOOLS, INC.

**Consolidated Financial Statements
and
Supplementary Information**

Year Ended June 30, 2020

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Independent Auditors' Report

To the Board of Directors of
BASIS Charter Schools, Inc.
Scottsdale, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of BASIS Charter Schools, Inc. and subsidiaries (the Firm), a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of BDC, a Public Charter School, Inc. (BDC), BASIS Texas Charter Schools, Inc. (BTCS), and BBR Schools, Inc. (BBR), subsidiaries of the Firm, which statements reflect total assets constituting 9% of the consolidated total assets, and total revenue and support constituting 24% of the consolidated total revenue and support, as of and for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for BDC, BTCS, and BBR, is based solely on the reports of the 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BASIS Charter Schools, Inc. and subsidiaries as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021, on our consideration of the Firm's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Firm's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

February 1, 2021

BASIS CHARTER SCHOOLS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

Current assets:	
Cash and cash equivalents	\$ 34,177,887
Due from government	4,108,291
Other receivables	2,313,909
Prepaid expenses, current	1,618,385
Prepaid debt service	4,390,000
Restricted cash, current	<u>14,021,256</u>
Total current assets	60,629,728
Noncurrent assets:	
Prepaid expenses, noncurrent	927,225
Restricted cash, noncurrent	27,175,180
Property and equipment, net	259,849,755
Deposits	<u>367,565</u>
Total noncurrent assets	<u>288,319,725</u>
Total assets	<u><u>\$ 348,949,453</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities:	
Accounts payable and accrued expenses	\$ 16,409,960
Deferred revenue	1,231,144
Deposits held for others	2,742,234
Current maturities of long-term debt	<u>4,390,000</u>
Total current liabilities	24,773,338
Long-term debt, net	<u>365,347,828</u>
Total liabilities	390,121,166
Net assets (deficit):	
Without donor restrictions	(46,903,168)
With donor restrictions	<u>5,731,455</u>
Total net assets (deficit)	<u><u>(41,171,713)</u></u>
Total liabilities and net assets (deficit)	<u><u>\$ 348,949,453</u></u>

The accompanying notes are an integral part of these statements.

BASIS CHARTER SCHOOLS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
State revenues	\$ 142,770,665	\$ 12,331,883	\$ 155,102,548
Federal revenues	2,577,539		2,577,539
Local revenues	15,759,079	6,718,947	22,478,026
Net assets released from restrictions	<u>20,174,530</u>	<u>(20,174,530)</u>	
Total revenue and support	181,281,813	(1,123,700)	180,158,113
Expenses:			
Primary and secondary education	151,431,829		151,431,829
General and administrative	24,322,074		24,322,074
Fundraising	<u>1,020,576</u>		<u>1,020,576</u>
Total expenses	<u>176,774,479</u>		<u>176,774,479</u>
Change in net assets (deficit) before prepayment penalties	4,507,334	(1,123,700)	3,383,634
Prepayment penalties	<u>(802,525)</u>		<u>(802,525)</u>
Change in net assets (deficit)	3,704,809	(1,123,700)	2,581,109
Net assets (deficit), beginning of year	<u>(50,607,977)</u>	<u>6,855,155</u>	<u>(43,752,822)</u>
Net assets (deficit), end of year	<u><u>\$ (46,903,168)</u></u>	<u><u>\$ 5,731,455</u></u>	<u><u>\$ (41,171,713)</u></u>

The accompanying notes are an integral part of these statements.

BASIS CHARTER SCHOOLS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

Cash flows from operating activities:	
Change in net assets (deficit)	\$ 2,581,109
Adjustments to reconcile change in net assets (deficit)	
to net cash provided by operating activities:	
Depreciation	8,628,972
Amortization of loan issuance costs	314,647
Amortization of bond premium	(337,978)
Prepayment penalties	802,525
Changes in:	
Due from government	421,366
Other receivables	(1,156,533)
Prepaid expenses	(586,996)
Deposits	(22,168)
Accounts payable and accrued expenses	1,677,685
Deferred revenue	136,014
Deposits held for others	145,223
Net cash provided by operating activities	12,603,866
Cash flows from investing activities:	
Funds used for prepaid debt service	(210,000)
Purchases of property and equipment	(13,473,229)
Net cash used in investing activities	(13,683,229)
Cash flows from financing activities:	
Proceeds from loans	12,465,000
Principal payments on long-term debt	(4,180,000)
Payments for loan issuance costs	(584,696)
Net cash provided by financing activities	7,700,304
Net increase in cash and restricted cash	6,620,941
Cash and cash equivalents and restricted cash, beginning of year	68,753,382
Cash and cash equivalents and restricted cash, end of year	\$ 75,374,323
<u>Supplemental disclosures</u>	
Cash and cash equivalents	\$ 34,177,887
Restricted cash, current	14,021,256
Restricted cash, noncurrent	27,175,180
Total	\$ 75,374,323
<u>Supplemental disclosures</u>	
Cash paid during the year for interest expensed	\$ 17,920,224

The accompanying notes are an integral part of these statements.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS Charter Schools, Inc. (the Firm), an Arizona not-for-profit organization, was formed in fiscal year 1998-99. The Firm provides educational services to students in kindergarten through twelfth grades. The Firm operates under charter contracts with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. Each school operates under its respective charter contract with the Arizona State Board for Charter Schools and is funded primarily through State Equalization assistance. BDC, a Public Charter School, Inc. (BDC) is a separate 501(c)(3) corporation established in the District of Columbia in fiscal year 2011-12, whose sole member/owner is the Firm. BASIS Texas Charter Schools, Inc. (BTCS) is a separate 501(c)(3) corporation established in Texas in fiscal year 2011-12, whose sole member/owner is the Firm. BBR Schools, Inc. (BBR) is a separate 501(c)(3) corporation established in Louisiana in fiscal year 2016-17, whose sole member/owner is the Firm. To efficiently manage the schools, the Firm entered into a management services agreement with BASIS Educational Group Inc. (BASIS.ed) on June 25, 2009.

The Firm has campuses at the following locations:

School Name	First Year of Service	Grades served in 2019-2020
BASIS School, Tucson Primary	1998-99	K-4
BASIS School, Scottsdale	2003-04	5-12
BASIS School, Oro Valley	2010-11	6-12
BASIS School, Chandler	2011-12	5-12
BASIS School, Flagstaff	2011-12	K-12
BASIS School, Peoria	2011-12	5-12
BASIS School, Tucson North	2012-13	5-12
BASIS School, Phoenix	2012-13	6-12
BASIS School, Ahwatukee	2013-14	4-12
BASIS School, Mesa	2013-14	K-12
BASIS School, Oro Valley Primary	2014-15	K-5
BASIS School, Prescott	2014-15	K-12
BASIS School, Phoenix Central	2014-15	K-5
BASIS School, Chandler Primary South	2015-16	K-4
BASIS School, Goodyear	2015-16	6-12
BASIS School, Goodyear Primary	2015-16	K-5
BASIS School, Scottsdale Primary East	2015-16	K-4
BASIS School, Chandler Primary North	2016-17	K-4
BASIS School, Peoria Primary	2017-18	K-4
BASIS School, Phoenix South Primary	2017-18	K-4
BASIS School, Phoenix Primary	2018-19	K-5
BASIS School, Scottsdale Primary West	2018-19	K-4
BDC	2012-13	5-12
BTCS (6 schools)	2013-14	K-12
BBR	2018-19	K-5

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

The significant accounting policies of the Firm are as follows:

Principles of Consolidation: Generally accepted accounting principles require the Firm to consolidate entities in which it has control and an economic interest when that control is evidenced through majority ownership or voting interests. The Firm is the sole member/owner of BDC, BTCS, and BBR, therefore consolidation is required. The consolidated financial statements include the accounts of the Firm, BDC, BTCS, and BBR. All significant inter-organization balances and transactions have been eliminated in consolidation.

Basis of Presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Firm is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions: The Firm follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions (see Note 8). Donor-restricted conditional grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Cash and Cash Equivalents: The Firm considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Due from Government: Due from government consists mainly of state approved payments to the Firm to operate the charter schools and federal grants passed through the State of Arizona. The Firm has never experienced any losses due to non-payment, expects none on the June 30, 2020 balances, and therefore has not established an allowance for uncollectibility.

Other Receivables: Other receivables consists of miscellaneous receivables due to the Firm that will be collected during the fiscal year subsequent to June 30, 2020.

Prepaid Expenses: Prepaid expenses consists of goods and/or services purchased before June 30, 2020 that are to be used subsequent to June 30, 2020.

Loan Issuance Costs: Loan issuance costs and origination fees are deferred and amortized over the term of the associated loans and are included in the Consolidated Statement of Financial Position as an offset to the related debt (see Note 6).

Property and Equipment: Property and equipment with an initial cost of \$300 or more and an estimated life of one year or more are capitalized. In addition, textbooks are always capitalized and considered a separate asset class. Assets are stated at cost. Depreciation and amortization is provided on the straight-line basis over the following estimated useful lives of the respective assets:

Buildings and improvements	40 years
Vehicles, furniture and equipment	3-5 years
Textbooks	3 years
Software	3 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease

Deferred Revenue: Deferred revenue represents amounts collected but not earned as of June 30, 2020.

Deposits Held For Others: Deposits held for others consists of student deposits required for the use of textbooks.

Advertising: Advertising costs are expensed as incurred and totaled \$577,251 for the year ended June 30, 2020.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in Note 7. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: The Firm and its subsidiaries are exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Change in Accounting Principle: In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Firm monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Firm has the following financial assets as of June 30, 2020 that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

Financial assets included in current assets:

Cash and cash equivalents	\$34,177,887
Due from government	4,108,291
Other receivables	2,313,909
Restricted cash, current portion	<u>14,021,256</u>
Total financial assets included in current assets	54,621,343

Less amounts unavailable for general expenditure within one year:

Donor restrictions	5,731,455
Restricted cash, current portion	<u>14,021,256</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$34,868,632</u>

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - LIQUIDITY AND AVAILABILITY - Continued

In addition to financial assets available to meet general expenditures over the year, the Firm operates with a balanced budget and anticipates covering its general expenditures by collecting revenue from the state of Arizona, Texas, Louisiana, and the District of Columbia; contributions, grants, and other revenues; and by utilizing donor-restricted resources from current and prior year gifts.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of required deposits associated with the long-term debt (see Note 6). The tax and insurance funds shall be used to pay real property taxes and premiums for the required insurance policies. The debt service reserve funds shall be used if the Firm is unable to make payments when due. The project funds shall be used to complete construction on the new campuses and furnishings and renovations to existing campuses. The bond funds shall be used to pay the interest coming due. The accounts are held by Bank of Arizona, as trustee.

Restricted cash as of June 30, 2020 consisted of the following:

Debt service reserve funds	\$ 24,779,643
Repair and replacement funds	52,646
Tax and insurance funds	190,571
Project funds	2,395,537
Bond funds	<u>13,778,039</u>
Total	<u>\$ 41,196,436</u>

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Firm maintains its unrestricted cash and cash equivalents with various financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash and cash equivalents may be in excess of FDIC insurance limits. The Firm has not experienced any losses in such accounts and management believes it is not exposed to any significant risks related to these accounts.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2020 consists of the following:

Land and improvements	\$ 57,708,734
Buildings and leasehold improvements	216,546,292
Vehicles, furniture and equipment	16,129,903
Textbooks	7,228,511
Software	306,266
Construction in progress	<u>4,207,249</u>
Total	302,126,955
Less accumulated depreciation	<u>42,277,200</u>
Property and equipment, net	<u><u>\$ 259,849,755</u></u>

Depreciation for the year ended June 30, 2020 totaled \$8,628,972.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2020:

\$1,725,250 promissory note payable to the City of Goodyear dated December 23, 2014. The loan matures over 30 years at an interest rate of 3.26%. Annual interest only payments of \$54,613 are due through December 2024, and annual principal and interest payments of \$114,125 start in January 2025. The note matures in December 2044. The loan was used to purchase real property for BASIS Goodyear and BASIS Goodyear Primary and is secured by a deed of trust on real property.

\$ 1,675,250

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS, Series 2015A) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$89,140,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated March 1, 2015. The loan matures over 30 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$370,000 to a maximum of \$5,650,000 commencing on July 1, 2016. The loan proceeds were used by the Firm for the following purposes: to (i) finance and refinance the costs of acquiring, constructing, improving and equipping various campuses, (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds, (iii) pay capitalized interest on a portion of the Bonds, and (iv) pay certain issuance expenses related to the Bonds. The loan is secured by BASIS Chandler, Flagstaff, Goodyear, Goodyear Primary, Oro Valley, Peoria, Phoenix, Scottsdale, Tucson North, and Tucson Primary (the Obligated Schools'), and all subsequent entrants into the Obligated Group's revenue received from the State of Arizona under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. These Bonds were sold at a premium of \$1,341,705, which is included in the unamortized net premium/discount.

83,870,001

Education Revenue Bonds (BASIS, Series 2016A) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$84,160,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated January 1, 2016. The loan matures over 30 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$690,000 to a maximum of \$11,110,000, commencing on July 1, 2017. The loan proceeds were used by the Firm for the following purposes: to (i) finance and refinance the costs of acquiring, constructing, improving and equipping various campuses, (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds, (iii) pay capitalized interest on a portion of the Bonds, and (iv) pay certain issuance expenses related to the Bonds. The loan is secured by the existing and newly entered Obligated Schools revenue received from the State of Arizona and the District of Columbia under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. The newest members of the Obligated Group are BASIS DC, BASIS Chandler Primary North, Oro Valley Primary, and Scottsdale Primary. These Bonds were sold at a premium of \$1,097,887, which is included in the unamortized net premium/discount.

80,710,000

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS, Series 2017A and 2017B) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of \$75,960,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated February 1, 2017. The loan matures over 34 years with interest rates between 4.00% and 5.375%. Annual principal and interest payments vary, and principal payments range from a minimum of \$225,000 to a maximum of \$10,460,000, commencing on July 1, 2017. The loan proceeds were used by the Firm for the following purposes: to (i) finance and refinance the costs of acquiring, constructing, improving and equipping various campuses, (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds, (iii) pay capitalized interest on a portion of the Bonds, and (iv) pay certain issuance expenses related to the Bonds. The loan is secured by the existing and newly entered Obligated Schools revenue received from the State of Arizona, the District of Columbia, and the State of Texas under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. The newest members of the Obligated Group are BASIS Chandler Primary South, Peoria Primary, Phoenix Central, Phoenix South Primary, Prescott, and San Antonio North Central. These Bonds were sold at a discount of \$227,672, which is included in the unamortized net premium/discount.

74,495,000

Education Revenue Bonds (BASIS, Series 2017C, 2017D, and 2017E) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of \$43,715,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated October 1, 2017. The loan matures over 34 years with interest rates between 3.00% and 5.25%. Annual principal and interest payments vary, and principal payments range from a minimum of \$155,000 to a maximum of \$14,365,000, commencing on July 1, 2018. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping various campuses, (ii) pay capitalized interest on a portion of the bonds, (iii) fund all or a portion of the Debt Service Reserve Funds, and (iv) pay the costs of issuance of the bonds. The loan is secured by the existing and newly entered Obligated Schools revenue received from the State of Arizona, the District of Columbia, and the State of Texas under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. The newest members of the Obligated Group are BASIS Ahwatukee and San Antonio Shaveno. These Bonds were sold at a premium of \$1,415,975, which is included in the unamortized net premium/discount.

43,340,000

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS, Series 2017F and 2017G) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of \$57,455,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated December 1, 2017. The loan matures over 34 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$110,000 to a maximum of \$3,405,000, commencing on July 1, 2018. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping various campuses, (ii) pay capitalized interest on a portion of the Bonds, (iii) fund all or a portion of the Debt Service Reserve Funds, and (iv) pay the costs of issuance of the bonds. The loan is secured by the existing and newly entered Obligated Schools revenue received from the State of Arizona, the District of Columbia, and the State of Texas under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. The newest members of the Obligated Group are BASIS Mesa, Phoenix Primary, and San Antonio Medical Center. These Bonds were sold at a premium of \$5,054,153 which is included in the unamortized net premium/discount.

57,075,000

Education Revenue Bonds (BASIS, Series 2018A) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of \$16,295,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated March 1, 2018. The loan matures over 34 years with interest rates between 6.00% and 6.375%. Annual principal and interest payments vary, and principal payments range from a minimum of \$440,000 to a maximum of \$1,365,000, commencing on July 1, 2024. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping, as applicable the Baton Rouge campus (ii) pay capitalized interest on the bonds (iii) fund a portion of the Debt Service Reserve Fund and (iv) pay the costs of issuance of the bonds. The loan is secured by the existing and newly entered Obligated Schools revenue received from the State of Arizona, the District of Columbia, the State of Texas, and the State of Louisiana under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. The newest member of the Obligated Group is BASIS Baton Rouge. These Bonds were sold at a discount of \$235,254 which is included in the unamortized net premium/discount.

16,295,000

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 - LONG-TERM DEBT - Continued

In March, 2020, the Arlington Higher Education Finance Corporation issued conduit debt for the benefit of BTCS to purchase and renovate a new campus in San Antonio. BTCS has pledged the resulting property, future revenues, and cash deposits as security for the bonds. The loan matures over 30 years with an interest rate of 4.0%. Annual principal and interest payments vary, and principal payments range from a minimum of \$180,000 to a maximum of \$725,000, commencing on June 15, 2023. These Bonds were sold at a premium of \$412,407 which is included in the unamortized net premium/discount.

	<u>12,465,000</u>
Total	369,925,251
Plus unamortized net premium/discount	8,023,762
Less unamortized loan issuance costs	8,211,185
Less current maturities	<u>4,390,000</u>
	<u><u>\$ 365,347,828</u></u>

The aggregate future minimum payments on long-term debt as of June 30, 2020, are as follows:

Year ending June 30:	
2021	\$ 4,390,000
2022	5,125,000
2023	5,470,000
2024	5,755,000
2025	6,534,959
Thereafter	<u>342,650,292</u>
	369,925,251
Plus unamortized net premium/discount	8,023,762
Less unamortized loan issuance costs	<u>8,211,185</u>
	<u><u>\$ 369,737,828</u></u>

Under the loan agreements, the Firm is required to comply with certain financial covenants. At June 30, 2020 the Firm was in compliance with those covenants.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 - FUNCTIONAL EXPENSE ALLOCATION

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of proportional use or time and effort.

The following summarizes the Firm's expenses by function for the year ended June 30, 2020:

	Primary and Secondary Education	General and Administrative	Fundraising	Total
Salaries and wages	\$ 81,740,550	\$ 7,504,824	\$ 536,515	\$ 89,781,889
Payroll taxes and benefits	17,800,828	1,594,335	79,927	19,475,090
Management and school development	17,519,058	2,921,888		20,440,946
Legal fees		139,019		139,019
Accounting fees	76,213	63,364		139,577
Other service fees	5,461,416	347,621	60	5,809,097
Supplies	2,645,404	367,367	1,448	3,014,219
Information technology	487,090	234,076	14,034	735,200
Insurance	770,335	310,232		1,080,567
Travel	91,462	36,283		127,745
Advertising and promotion	90,649	486,604		577,253
Occupancy	3,795,720	1,753,820		5,549,540
Office	273,557	528,644		802,201
Fundraising			388,473	388,473
Interest	12,360,543	5,297,695		17,658,238
Depreciation	6,417,031	2,211,941		8,628,972
Amortization	220,254	94,394		314,648
Other	1,681,719	429,967	120	2,111,806
Total Expenses	<u>\$ 151,431,829</u>	<u>\$ 24,322,074</u>	<u>\$ 1,020,577</u>	<u>\$ 176,774,480</u>

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions released from restrictions consisted of the following for the year ending June 30, 2020:

Annual Teacher Fund	\$ 6,116,815
Classroom Site Funds	7,629,825
Instructional Improvement Funds	1,005,056
Results Based Funding	3,036,708
College Credit by Examination Incentive Program	1,726,526
Tax Credit Contributions	355,624
Other	<u>303,976</u>
	<u>\$20,174,530</u>

Net assets with donor restrictions consisted of the following at June 30, 2020:

Annual Teacher Fund	\$ 5,161,574
Instructional Improvement Funds	4,056
College Credit by Examination Incentive Program	309,640
Other	<u>256,185</u>
	<u>\$ 5,731,455</u>

NOTE 9 - ECONOMIC DEPENDENCY

Approximately 66% of the Firm's revenue for the year ended June 30, 2020 was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on the Firm's revenues.

Approximately 62% of the Firm's total expenses for the year ended June 30, 2020 were paid to BASIS.ed for leased employee costs and approximately 12% were paid to BASIS.ed for management services fees.

BASIS Charter Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - OPERATING LEASES

The Firm entered into leases for some of its school sites under the provisions of long-term lease agreements classified as operating leases, expiring through July 2049. Rental expense under these leases was \$858,065 for the year ended June 30, 2020. Future minimum operating lease commitments are as follows:

Year ending June 30,	
2021	\$ 858,065
2022	566,865
2023	566,865
2024	566,865
2025	566,865
Thereafter	<u>13,604,760</u>
	<u>\$ 16,730,285</u>

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: The Firm's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in adjustments or withholding of State Equalization assistance.

Commitments: The Firm has entered into agreements with BASIS.ed to provide charter school management, teaching services and administrative services for each of its schools, with various expiration dates through June 30, 2023. Under terms of the management agreement with BASIS.ed, the Firm incurred \$109,256,983 for leased employee costs and \$20,440,947 in management services fees and school development fees. The management fee is comprised of three categories, including management services, operational services, and financial services. The management fee is based on a percentage of operating revenue.

NOTE 12 - SUBSEQUENT EVENTS

The Firm has evaluated subsequent events through February 1, 2021, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2020 that would require an adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

BASIS CHARTER SCHOOLS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS	BCSI	BDC	BTCS	BBR	Eliminations	Totals
Current assets:						
Cash and cash equivalents	\$ 22,272,393	\$ 2,741,560	\$ 7,130,729	\$ 2,033,205		\$ 34,177,887
Due from government	1,094,646		3,013,645			4,108,291
Due from related party	10,895	19,801	33,750		\$ (64,446)	
Other receivables	1,426,485	137,728	223,172	526,524		2,313,909
Prepaid expenses, current	1,436,434	34,947	126,345	20,659		1,618,385
Prepaid debt service	4,390,000					4,390,000
Restricted cash, current	13,868,941		152,315			14,021,256
Total current assets	44,499,794	2,934,036	10,679,956	2,580,388	(64,446)	60,629,728
Noncurrent assets:						
Prepaid expenses, noncurrent	927,225					927,225
Restricted cash, noncurrent	24,024,577		3,150,603			27,175,180
Property and equipment, net	247,254,226	375,338	12,096,763	123,428		259,849,755
Deposits	334,115	1,375	24,022	8,053		367,565
Total noncurrent assets	272,540,143	376,713	15,271,388	131,481		288,319,725
Total assets	<u>\$ 317,039,937</u>	<u>\$ 3,310,749</u>	<u>\$ 25,951,344</u>	<u>\$ 2,711,869</u>	<u>\$ (64,446)</u>	<u>\$ 348,949,453</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
Current liabilities:						
Accounts payable and accrued expenses	\$ 12,118,282	\$ 514,432	\$ 3,298,613	\$ 478,633		\$ 16,409,960
Deferred revenue	805,333		425,811			1,231,144
Due to related party	53,670	600	184	9,992	\$ (64,446)	
Deposits held for others	2,742,234					2,742,234
Current maturities of long-term debt	4,390,000					4,390,000
Total current liabilities	20,109,519	515,032	3,724,608	488,625	(64,446)	24,773,338
Long-term debt, net	353,053,017		12,294,811			365,347,828
Total liabilities	373,162,536	515,032	16,019,419	488,625	(64,446)	390,121,166
Net assets (deficit):	(56,122,599)	2,795,717	9,931,925	2,223,244		(41,171,713)
Total liabilities and net assets (deficit)	<u>\$ 317,039,937</u>	<u>\$ 3,310,749</u>	<u>\$ 25,951,344</u>	<u>\$ 2,711,869</u>	<u>\$ (64,446)</u>	<u>\$ 348,949,453</u>

See independent auditors' report.

BASIS CHARTER SCHOOLS, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	BCSI	BDC	BTCS	BBR	Eliminations	Totals
Revenue and support:						
State revenues	\$ 117,198,663	\$ 10,626,675	\$ 21,271,256	\$ 6,005,954		\$ 155,102,548
Federal revenues	1,988,745	146,137	388,156	54,501		2,577,539
Local revenues	<u>23,953,379</u>	<u>408,273</u>	<u>4,017,867</u>	<u>539,443</u>	\$ (6,440,936)	<u>22,478,026</u>
Total revenue and support	143,140,787	11,181,085	25,677,279	6,599,898	(6,440,936)	180,158,113
Expenses:						
Primary and secondary education	123,757,115	9,939,074	18,078,161	4,640,332	(4,982,853)	151,431,829
General and administrative	19,645,437	606,726	4,564,226	963,768	(1,458,083)	24,322,074
Fundraising	<u>795,952</u>	<u>43,163</u>	<u>156,863</u>	<u>24,598</u>		<u>1,020,576</u>
Total expenses	<u>144,198,504</u>	<u>10,588,963</u>	<u>22,799,250</u>	<u>5,628,698</u>	<u>(6,440,936)</u>	<u>176,774,479</u>
Change in net assets (deficit) before prepayment penalties	(1,057,717)	592,122	2,878,029	971,200		3,383,634
Prepayment penalties	<u>(802,525)</u>					<u>(802,525)</u>
Change in net assets (deficit)	(1,860,242)	592,122	2,878,029	971,200		2,581,109
Net assets (deficit), beginning of year	<u>(54,262,357)</u>	<u>2,203,595</u>	<u>7,053,896</u>	<u>1,252,044</u>		<u>(43,752,822)</u>
Net assets (deficit), end of year	<u><u>\$ (56,122,599)</u></u>	<u><u>\$ 2,795,717</u></u>	<u><u>\$ 9,931,925</u></u>	<u><u>\$ 2,223,244</u></u>	<u><u>\$</u></u>	<u><u>\$ (41,171,713)</u></u>

See independent auditors' report.

BASIS CHARTER SCHOOLS, INC.

OBLIGATED GROUP STATEMENT OF FINANCIAL POSITION

June 30, 2020

	<u>Obligated Group (Existing Members)¹</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 32,908,898
Other current assets	<u>25,937,499</u>
Total current assets	58,846,397
Noncurrent assets:	
Property and equipment, net	248,081,047
Other noncurrent assets	<u>25,247,314</u>
Total noncurrent assets	<u>273,328,361</u>
Total assets	<u><u>\$ 332,174,758</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)	
Current liabilities:	
Accounts payable and accrued expenses	\$ 8,888,977
Other current liabilities	<u>13,122,502</u>
Total current liabilities	22,011,479
Long-term debt	<u>352,722,114</u>
Total liabilities	374,733,593
Net assets (deficit)	<u>(42,558,835)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 332,174,758</u></u>

(1)Represents the results of the Pledged Schools financed as part of the Series 2015, 2016, 2017, and 2018 Bonds.

See independent auditors' report.

BASIS CHARTER SCHOOLS, INC.

OBLIGATED GROUP STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	Obligated Group (Existing Members) ¹
Revenues:	
State revenues	\$ 152,014,901
Federal revenues	2,535,449
Local revenues	<u>22,243,467</u>
Total revenue and support	176,793,817
Expenses:	
Salaries and payroll	106,292,084
Management fees	19,252,034
Other operating	21,943,796
Depreciation	8,558,745
Bond interest and amortization	<u>17,970,678</u>
Total expenses	<u>174,017,337</u>
Change in net assets (deficit) before non-recurring expenses	2,776,480
Non-recurring expenses ²	<u>(802,525)</u>
Change in net assets (deficit)	1,973,955
Net assets (deficit), beginning of year	<u>(44,532,790)</u>
Net assets (deficit), end of year	<u><u>\$ (42,558,835)</u></u>

(1)Represents the results of the Pledged Schools financed as part of the Series 2015, 2016, 2017, and 2018 Bonds.

(2)Non-recurring expenses reflect non-cash expensing of certain refunding prepayment penalties.

See independent auditors' report.

BASIS CHARTER SCHOOLS, INC.

Single Audit Reporting Package

Year Ended June 30, 2020

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**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***

To the Board of Directors of
BASIS Charter Schools, Inc.
Scottsdale, Arizona

We have audited, in accordance with the 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, the consolidated financial statements of BASIS Charter Schools, Inc. (the Firm), a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 1, 2021. Our report includes a reference to other auditors who audited the financial statements of BDC, a Public Charter School, Inc., BASIS Texas Charter Schools, Inc., and BBR Schools, Inc. as described in our report on the Firm's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Firm's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firm's internal control. Accordingly, we do not express an opinion on the effectiveness of the Firm's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Firm's consolidated financial statements are free from 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 consolidated 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

February 1, 2021



**Independent Auditors' Report on Compliance For Each Major Program;
Report on Internal Control Over Compliance; Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

To the Board of Directors of
BASIS Charter Schools, Inc.
Scottsdale, Arizona

Report on Compliance for Each Major Federal Program

We have audited BASIS Charter Schools, Inc.'s (the Firm) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Firm's major federal programs for the year ended June 30, 2020. The Firm's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Firm's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Firm'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Firm's compliance.

Opinion on Each Major Federal Program

In our opinion, the Firm complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Firm is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Firm's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Firm's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Firm as of and for the year ended June 30, 2020, and have issued our report thereon dated February 1, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Fester & Chapman, PLLC

February 1, 2021

BASIS Charter Schools, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Agriculture</u>				
Passed through Arizona Department of Education				
Child Nutrition Cluster:				
School Breakfast Program (SBP)	10.553	Various	\$ 9,965	\$
National School Lunch Program (NSLP)	10.555	Various	65,156	
Summer Food Service Program for Children (SFSP)	10.559	Various	81,231	
Total Child Nutrition Cluster			<u>156,352</u>	
Total U.S. Department of Agriculture			<u>156,352</u>	
<u>U.S. Department of Education</u>				
Passed through Arizona Department of Education				
Title I Grants to Local Educational Agencies	84.010	Various	77,920	
Special Education Cluster (IDEA):				
Special Education-Grants to States	84.027	Various	1,697,169	
Special Education-Preschool Grants	84.173	Various	9,750	
Total Special Education Cluster			<u>1,706,919</u>	
Charter Schools	84.282	Various	44,055	
English Language Acquisition State Grants	84.365	Various	<u>3,499</u>	
Total U.S. Department of Education			<u>1,832,393</u>	
Total Expenditures of Federal Awards			<u>\$ 1,988,745</u>	<u>\$</u>

See accompanying notes to this schedule.

BASIS Charter Schools, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of BASIS Charter Schools, Inc. (the Firm), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the 2020 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - INDIRECT COST RATE

The Firm has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Firm did not pass any funds onto subrecipients during the year ended June 30, 2020.

BASIS Charter Schools, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued:		Unmodified	
	Yes	No	
Material weaknesses identified in internal control over financial reporting?	_____	_____X_____	
Significant deficiencies identified not considered to be material weaknesses?	_____	_____X_____	(None reported)
Noncompliance material to the financial statements noted?	_____	_____X_____	

Federal Awards

Material weakness identified in internal control over major programs?	_____	_____X_____	
Significant deficiencies identified not considered to be material weaknesses?	_____	_____X_____	(None reported)
Type of auditors' report issued on compliance for major programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	_____X_____	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.027	Special Education Cluster (IDEA):
84.173	Special Education-Grants to States
	Special Education-Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?	_____X_____	_____	
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Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)?	_____	_____X_____	
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BASIS Charter Schools, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were identified that were required to be reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were identified that were required to be reported.

BASIS Charter Schools - Mesa
Legal Compliance Questionnaire
Year Ended June 30, 2020



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
BASIS Charter Schools, Inc. Re. BASIS Mesa (07-82-25-000)
Mesa, Arizona

We have performed the procedures enumerated below, which were agreed to by Arizona State Board for Charter Schools (the specified party), solely to assist you with respect to compliance of BASIS Charter Schools, Inc. Re. BASIS Mesa (07-82-25-000) (the Firm) as of and for the year ended June 30, 2020. The Firm's management is responsible for compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are included in the following 7/20 version of the Legal Compliance Questionnaire.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Firm's compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than those specified parties.

Fester & Chapman, PLLC

February 11, 2021



**Arizona State Board for Charter Schools
Legal Compliance Questionnaire
Charter/CTDS: BASIS Mesa (078225000)
Fiscal Year Ended: June 30, 2020**

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INSTRUCTIONS

NOTE: This questionnaire should only be used for charters that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (charters that HAVE an exception). If a charter is subject to procurement requirements pursuant to A.R.S. §§15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines) which is available on the Arizona State Board for Charter Schools' website <https://asbcs.az.gov>.

In order to determine whether a charter that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire in accordance with both the agreed upon procedures (instructions contained herein) and the attestation standards established by the American Institute of Certified Public Accountants. (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum agreed upon procedures, as well as those identified throughout the questionnaire, must be used for completing the Legal Compliance Questionnaire in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The State Board for Charter Schools may reject questionnaires not meeting these standards.

- ◆ Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the charter complies with the legal requirements, and the evidence must be included in the documentation.
- ◆ Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.
- ◆ Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.
- ◆ The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.
- ◆ The sample size should be expanded if the audit firm cannot clearly determine whether the charter complies with the legal requirements of the question.

- ◆ If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.
- ◆ All “No” and “N/A” answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.
- ◆ A “Yes” answer indicates that the audit firm has determined that the charter complies with the legal requirements of the question and a “No” answer indicates the charter does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, resulting documentation, and any other sources.

The resulting documentation supporting the audit firm’s answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the documentation a copy of the questionnaire containing references to procedures performed for each question.

Legal Compliance Questionnaire¹

Questions/Subject Area	Yes/No	Comments
Personnel		
1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? A.R.S. §15-183 (C)(5) and A.R.S. §15-512 (H)	Yes	
(QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)		
2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions) A.R.S. §15-183 (C)(5):		
a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date?	N/A	All personnel had FCC's
b. Did DPS receive the application prior to the hire date?	N/A	All personnel had FCC's
c. Prior to placement, did the school do all of the following?		
i) Document the necessity for hiring/placing the individual prior to receiving a FCC?	N/A	All personnel had FCC's
ii) Obtain statewide criminal history information on the individual?	N/A	All personnel had FCC's
iii) Obtain references from the applicant's current and previous employers?	N/A	All personnel had FCC's
3. Did the charter school maintain up-to-date fingerprints of all Governing Body members as of the testing date? Charter Contract²	Yes	
4. Were all other personnel fingerprint checked as of the testing date? A.R.S. §15-183 (C)(5) and A.R.S. §15-512	Yes	
5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of information about the educational and teaching background and experience in a particular academic content subject area for all current employees who provide instruction to pupils? A.R.S. §15-183 (F)	Yes	
<p>¹ For the purposes of this questionnaire, please note that "Governing Body" means the group of persons required by A.R.S. §15-183(E)(8) that is responsible for policy decisions of the charter school. The term "Governing Board" means the group of persons that the charter holder has assigned the responsibility addressed by the question. The applicable group of persons may be the Governing Body or the officers, directors, members or partners of the charter holder. The applicable group of persons may vary depending on the issue addressed by the question.</p> <p>² Specific contract cites could not be provided as term references vary per contract year.</p>		

Questions/Subject Area	Yes/No	Comments
Required Filings		
1. Is the school in good standing with the following regulatory bodies:		
a. Internal Revenue Service U.S.C. Title 26		
i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	
iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service?	N/A	See questions i. and ii. above
iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	See question iii. above
b. Arizona Department of Revenue A.R.S. §43-401 and §43-1111		
i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	
iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue?	N/A	See questions i. and ii. above
iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	See question iii. above
c. Arizona Department of Economic Security A.R.S. § 23-701 through 23-757		
i. State unemployment contributions requirements for the audited fiscal year?	Yes	
ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	
iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security?	N/A	See questions i. and ii. above
iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	See question iii. above

Questions/Subject Area	Yes/No	Comments
d. Corporation Commission (e.g., annual report)? Charter Contract	Yes	
2. Was a copy of the adopted budget submitted electronically to the Superintendent of Public Instruction no later than July 18 th ? A.R.S. §15-905 (E) and §15-183 (E)(6)	Yes	
3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15 th ? A.R.S. §15-183 (E)(6) and 15-904 (A)	Yes	
Special Education		
1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education?	Yes	
2. Does the school conduct 45 day screenings on all new students? AAC R7-2-401	Yes	
3. Are evaluations and IEPs on file for special education students? 34 CFR 300.341-350 and 300.531-536	Yes	
Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum No. 44		
1. Did the school properly allocate Classroom Site Fund receipts among the following projects: 1011 – Base Salary (20%), 1012 – Performance Pay (40%), and 1013 – Other (40%)?	Yes	
2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses?	Yes	
3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses?	Yes	
4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, assessment intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums?	Yes	
5. Did the school use Classroom Site Fund monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance on the Classroom Site Fund.)	Yes	
6. If the school had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years?	Yes	
7. Did the school have sufficient cash at year-end to cover the carry over monies, and what was the Classroom Site Fund <u>cash</u> carryover balance at year-end?	Yes \$0	

Questions/Subject Area	Yes/No	Comments								
Student Attendance Reporting										
If test work performed in this section discloses a net overstatement or understatement of membership and/or absence days, based on A.R.S. and ADE's school finance external guidelines, report the net overstatement or understatement in the "Comments" column next to each applicable question.										
1. Did the school's calendar ensure school was in session for the required days and students received the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in A.R.S. §§15-808(J)(1), 15-901(A)(1) and 15-901.07?	Yes									
For Student Attendance Reporting questions, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. These samples should include <u>3</u> or more grade levels and <u>3</u> or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested should be selected from the first 100 days of school. In the parentheses provided within the questions, write the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.										
For question 2, select at least 3 student attendance records. 2. If the school had an early (pre-)kindergarten program, based upon review of 0 early (pre-) kindergarten students' attendance records, did the school only calculate and submit membership information for this program for students with disabilities? A.R.S. §15-901(A)(1)(a)(i) and USFRCS Memorandum No. 33	N/A	Program not offered by school								
For question 3, use the following sample sizes:										
<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>SCHOOLWIDE ADM</u></td> <td style="text-align: center;"><u>Student Attendance Records</u></td> </tr> <tr> <td style="text-align: center;">< 1,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">1,000 - 5,000</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">> 5,000</td> <td style="text-align: center;">15</td> </tr> </table>	<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>	< 1,000	5	1,000 - 5,000	10	> 5,000	15		
<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>									
< 1,000	5									
1,000 - 5,000	10									
> 5,000	15									
3. Based upon review of 5 students' attendance records, did the school appropriately track and report elementary, junior high, and high school students' absences? A.R.S. §15-901(A)(1)(a)(i) and 15-901(A)(5)(a)(i), and USFRCS Memorandum No. 33	Yes									
For questions 4-7, use the following sample sizes:										
<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>SCHOOLWIDE ADM</u></td> <td style="text-align: center;"><u>Student Attendance Records</u></td> </tr> <tr> <td style="text-align: center;">< 1,000</td> <td style="text-align: center;">3</td> </tr> <tr> <td style="text-align: center;">1,000 - 5,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">> 5,000</td> <td style="text-align: center;">7</td> </tr> </table>	<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>	< 1,000	3	1,000 - 5,000	5	> 5,000	7		
<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>									
< 1,000	3									
1,000 - 5,000	5									
> 5,000	7									
4. Based upon review of 0 high school students' attendance records, did the school prorate the membership of the students enrolled in less than 4 subjects?	N/A	No students enrolled in less than 4 subjects								

Questions/Subject Area	Yes/No	Comments
5. For schools-Based on a review of 0 students' (enrolled in a program provided by a CTED in a facility owned or operated by a school) attendance records, did the school report the actual enrollment for only the school classes the student was enrolled in at the school site (excluding CTED program classes) under the school's CTDS number?	N/A	Program not offered by school
6. For schools offering an AOI Program, based upon a review of 0 AOI students' attendance records for 4 weeks: (ADE's guideline SF-0003-AOI Participation)		
a. Was the guardian-approved or school computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI school? A.R.S. §15-808(E)	N/A	Program not offered by school
b. Did the hours reported to ADE agree to the guardian-approved or school computer-generated daily log?	N/A	Program not offered by school
c. Were all students who participated in an AOI Program, residents of this state? A.R.S. §15-808(B)	N/A	Program not offered by school
d. Was the student's Intended Full Time Equivalency Enrollment Statement maintained?	N/A	Program not offered by school
7. Based upon review of the student attendance records in question 6, did the school follow its procedures to re-determine the actual FTE for each student enrolled in an AOI Program following a student's withdrawal or after the end of the school year?	N/A	Program not offered by school
For questions 8-12, use the following sample sizes:		
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> SCHOOLWIDE ADM < 1,000 1,000 - 5,000 > 5,000 </div> <div style="text-align: center;"> Student Attendance Records 5 10 15 </div> </div>		
8. Based upon review of 1 students withdrawn for having 10 consecutive unexcused absences (all grades), was the student only counted in membership through the last day of actual attendance or excused absence? A.R.S. §15 901(A)(1)	Yes	Total population tested
9. Based upon review of 5 entries, does the student's name entered in the student management system match the name on the legal document on file? A.R.S. §15- 828(D)	Yes	
10. Based upon review of 5 entries: (Note: Enrollment forms are not required for continuing students at the same school.)		
a. Were the entry dates entered into the school's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry?	Yes	
b. Did the entry date in the computerized attendance system agree to the entry form?	Yes	

Questions/Subject Area	Yes/No	Comments
c. Did membership begin on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school? ADE's External Guideline GE-17	Yes	
d. Did the school obtain and maintain verifiable documentation of Arizona residency upon enrollment? A.R.S. §15-802(B)(1) and ADE's Arizona Residency Documentation Guidelines	Yes	
11. If the school admitted students who were nonresidents of Arizona, were the students excluded from the school's student count and state aid calculations, as applicable, and was tuition charged, as applicable? A.R.S. §15-823(G) and (L)	N/A	All are Arizona residents
12. Based upon review of 5 withdrawals:		
a. Were the withdrawal dates entered into the school's computerized attendance system within 5 working days after the actual day of withdrawal and was documentation maintained to support the date of data entry? (Note: "Day of withdrawal" for determining timely data entry means: a. the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b. the 10 th day of unexcused absence for students withdrawn for having 10 consecutive unexcused absences.)	Yes	
b. Did the withdrawal date in the computerized attendance system agree to the withdrawal form? (Note: If the computerized attendance system requires the school to input the day following the withdrawal date for a student to be counted in membership through the last day of actual attendance or excused absence, the withdrawal date on the system should be the school day following the withdrawal date on the form.)	Yes	
c. Did the school prepare and retain an <i>Official Notice of Pupil Withdrawal</i> form that a school administrator signed for each withdrawal? A.R.S. §15 827	Yes	
13. Based upon review of the school's student data uploaded to ADE (AzEDS ADM15 report), did the membership and absences agree to the school's computerized attendance system records for the first 100 days of school? (Note: For an AOI Program, review year-end attendance information.)	Yes	

Questions/Subject Area	Yes/No	Comments
Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)		
1. Did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations?	Yes	
2. Did the school post all public meeting notices on its website?	Yes	
3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting?	Yes	
4. Were notices and agenda of public meetings posted at least 24 hours before the meeting?	Yes	
5. Were written minutes prepared or a recording made of Governing Body meetings?	Yes	
Insurance Requirements A.R.S. §15-183(M)		
Does the school have the required insurance for liability and property loss?	Yes	
Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007)		
Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents]?	Yes	
Records Management		
1. Did the school retain records in accordance with the <i>General Retention Schedules for Education - K-12</i> published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? (www.azlibrary.gov/arm/retention-schedules)	Yes	
2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)?	Yes	

This Questionnaire was completed in accordance with the minimum standards as set forth in the instructions on pages 2 and 3.

Fester & Chapman, PLLC

Audit Firm



Preparer's Signature (Audit Firm Representative)

February 11, 2021

Date

Director

Title